



ŽEMAITIJOS PIENAS AB

**Independent Auditor's Report,
Consolidated Annual Report,
Financial Statements,
and Consolidated Financial statements
for the year ended 31 December 2018**

CONFIRMATION BY RESPONSIBLE PERSONS

March 2019

Telšiai

In accordance with article 22 of the Republic of Lithuania Law on Stocks and Lithuanian Bank Information Disclosure Rules we, AB “Žemaitijos pienas” general director Robertas Pažemeckas and senior accountant Dalia Gecienė, hereby confirm that, in so far as we are aware, the attached 2018 AB „Žemaitijos pienas“ consolidated audit report and company financial statements prepared in accordance with International Financial Reporting Standards adopted in the European Union are true and correctly reflect the assets, liabilities, financial status, income or losses, and cash flows of the company and the group of enterprises while the consolidated annual statement provides proper overview of business development and activities and status of the company and the group of enterprises as well as description of the main encountered risks and uncertainties.

General director



Robertas Pažemeckas

Senior accountant



Dalia Gecienė



CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT-----	3 - 6
CONSOLIDATED AND COMPANY'S ANNUAL REPORT-----	7 - 27
FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION -----	28
STATEMENTS OF COMPREHENSIVE INCOME-----	29
STATEMENTS OF CHANGES IN EQUITY-----	30 - 31
STATEMENTS OF CASH FLOW-----	32
EXPLANATORY NOTES-----	33 - 80
INFORMATION ABOUT COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE	81 - 106



UAB „Ernst & Young Baltic“
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com/lt
Juridinio asmens kodas LT10878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com/lt
Code of legal entity LT10878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Žemaitijos Pienas

Report on the Audit of the Company's and Consolidated Financial Statements

Qualified opinion

We have audited the accompanying separate financial statements of AB Žemaitijos Pienas, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB Žemaitijos Pienas and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter discussed in section Basis for qualified opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for qualified opinion

According to the requirements of IAS 16 "Property, plant and equipment", the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". In our auditor's report, dated 11 April 2018, on the financial statements for the year ended 31 December 2017, we have qualified our opinion as the management of the Company and the Group did not fully meet these requirements in preparing the financial statements for the year ended 31 December 2017. As described in Note 5, during 2018 the Company and the Group reviewed the residual values and useful lives of its assets and where necessary amended them, however only for 2018. Accordingly, we have not been able to obtain sufficient audit evidence to evaluate the possible effects of the above matter on the Company's and Group's financial statement balances for the year ended 31 December 2017 included in the current year financial statements, as well as the possible effects of this matter on the balances of property, plant and equipment and retained earnings as of 31 December 2018.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

How the matter was addressed in the audit

Inventory net realizable value and allowance for obsolescence

Inventories of the Company and the Group amount to EUR 30 932 thousand and EUR 32 927 thousand, respectively, before impairment allowance and to EUR 29 415 thousand and EUR 31 058 thousand, respectively, after impairment allowance as of 31 December 2018 (Note 8). This is significant to our audit since it is a material figure for the Company and the Group comprising 27% of the Company's and 27% the Group's total assets, and requires management judgment in assessing whether the carrying value of some inventories is not higher than their net realizable value at the balance sheet date. There is also management judgment required in determining the inventory obsolescence allowance, as it is based on management's assessment of historical and forecast of particular inventory sales, physical obsolescence rates and other relevant factors.

Among other audit procedures, we have gained an understanding of how management evaluates inventory net realizable value and calculates allowance for obsolescence. We have reviewed the calculations of inventory net realizable value, which was performed by the management of the Company and the Group based on review of subsequent sales after the year-end. We have also tested the ageing of the inventories and the computation of the obsolescence level. Further, we have also analyzed various obsolescence related information and management's forecast of future sales, applied in the calculations of impairment allowance. Finally, we have evaluated the adequacy of the Company's and the Group's disclosures included in Note 8.

Assessment of the recoverability of a related party receivable

As of 31 December 2018, the Company / Group had a receivable from related party Cia Market of EUR 2 650 thousand (2017 - EUR 2 113 thousand) before impairment, and the impairment allowance recorded for it of EUR 339 thousand (2017 - EUR 189 thousand) as of 31 December 2018 (Note 9). Even though the Company / Group has been and continues trading with this company for a number of years, there is an ongoing uncertainty over the collectability of the receivable balance from this specific customer, because the financial position of Cia Market has not been strong for several years, it has been periodically late with payments due to the Company / Group. We believe that this is a key audit matter due to the high individual amount materiality level and also because the determination as to whether this receivable is recoverable and the assessment of the appropriate level of allowance for it involves significant management judgment.

Among other audit procedures, we have reviewed historical payment patterns by Cia Market, the amount of payments that have been received subsequent to year-end, the information available to the Company / Group about the historical and latest financial position and results of operations of this company, as well as management's assessment of the anticipated time over which the outstanding amount is expected to be repaid, and the related present value estimates that are the basis for the allowance assessment. We have also assessed the adequacy of the Company's / Group's disclosures included in Note 4 in relation to the management's key judgments and estimates related to assessing the recoverability of and related allowance for this receivable as of the year-end (Note 9).

Other information

Other information consists of the information included in the 2018 consolidated and Company's annual report, including Company's Corporate Governance Code Compliance Report, Consolidated Management Report and Corporate Social Responsibility Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have

performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We also have to evaluate, if the financial information included in the consolidated and Company's annual report, including Corporate Governance Code Compliance Report and Consolidated Management Report, corresponds to the financial statements for the same financial year and if the Company's and Group's Annual Report and Consolidated Management Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the consolidated and Company's annual report, including Corporate Governance Code Compliance Report and Consolidated Management Report, corresponds to the financial information included in the financial statements for the same year; and
- The consolidated and Company's Annual Report and Consolidated Management Report, was prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania and the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report has been provided. If we identify that Corporate Social Responsibility Report has not been provided, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and/or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that

a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by extraordinary shareholders meeting on 8 September 2017 we have been appointed to carry out the audit of Company's financial statements and Group's consolidated financial statements for the first time and the period of our total uninterrupted engagement is two years.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in section 'Qualified opinion' is consistent with the additional Audit report which we have submitted to the Company's and the Group's Audit Committee.

Non audit services

We confirm that to the best of our knowledge and belief, services provided to the Company and the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in the Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

- ◻ We have provided the services that are disclosed in the Group's Annual Report.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

15 March 2019

CONSOLIDATED AND COMPANY'S ANNUAL REPORT

I. GENERAL INFORMATION

Reporting period for which the Report is developed

Annual consolidated report and financial statements of the Group of Companies are prepared for 2018 under the conditions, requirements and procedure established in legal acts, following the Law on Financial Statements of Companies of the Republic of Lithuania and the Law on Consolidated Financial Statements of Groups of Companies of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, legal acts regulating legal form and activities of the Issuer, incorporation documents of the Issuer and Associated Company and other legal acts.

This document refers to AB "Žemaitijos pienas" (hereinafter referred to as the Company or Issuer), ABF "Šilutės Rambynas" (hereinafter referred to as the Group Company or Associated Company), and in cases when facts on both Companies are described and/or specified, the Companies shall refer to as the Companies of the Group.

Basic data on the Company

Name	AB "Žemaitijos pienas"
Legal - organisational form Registered	Public Limited Liability Company 23 June 1993
Entity identification number	180240752
VAT code	LT802407515
Authorised capital	EUR 14 028 750, divided into 48 375 000 ordinary registered shares, nominal value of one share is EUR 0.29
Office address	Sedos Str. 35, LT-87101 Telšiai
Telephone	+ 370-444-22201
Fax	+ 370-444-74897
E-mail	info@zpienas.lt
WEB	www.zpienas.lt
Stock trading code	ZMP1L
ISIN number	LT0000121865

Data on AB "Žemaitijos pienas" is collected and stored in the State Enterprise Centre of Registers.

Brief history of the Company

The beginning of AB “Žemaitijos Pienas” dates back to 1924, when Telšiai dairy plant of high capacity was incorporated. In the end of 1984 Telšiai dairy plant activity moved to new premises and operated until opening and privatization of Telšiai cheese plant which was one of the largest in the Baltic States. AB “Žemaitijos pienas” was registered in the Register of Legal Entities on 23 June 1993 in Telšiai District Board and on 16 October 1998 it was re-registered in the Ministry of Agriculture of the Republic of Lithuania.

Information on the Associated Company and branches

The company managed-controlled by the Company:

ABF “Šilutės Rambynas”, entity Identification number 277141670, office address - Klaipėdos Str. 3, Šilutė.
Date and place of registration: 1992-12-09, Šilutė District Municipality, Šilutė, Klaipėdos Str. 3.
Authorised Capital - EUR 2 493 028.50,
AB “Žemaitijos pienas” holds 87,82% of authorised Capital (shares) and votes.
Telephone +370 441 77442, fax +370 441 77443,
E-mail: info@rambynas.lt.
ABF “Šilutės Rambynas” has no incorporated branches and representative offices.

Branches of AB “Žemaitijos pienas”:

- Vilnius Branch, address : Algirdo Str. 40/13, Vilnius
- Kaunas Branch, address : Europos Avė 36, Kaunas
- Klaipėda Branch, address: Šilutės Highway 33, Klaipėda
- Panevėžys Branch, address : J. Janonio Str. 9, Panevėžys

Branches of the Company fulfil the functions related to sale of goods (dairy products) within the set territory of the branch and take other actions or fulfil orders of the Company.
The Company has no incorporated representative offices.

Nature of activity of the Company and Associated Company

The basic activity of AB “Žemaitijos pienas” (controlling company) is the development, production (NACE: C 10.5. Manufacture of dairy products; C 10.51. Operation of dairies and cheese making), and sales at Lithuanian and foreign markets of dairy products (fermented cheese and cheese products, pre-packaged cheese and cheese products, processed cheese and cheese products, cream, cream cheese, butter, dairy spreads, mixed spreads, milk fat, pasteurised cream, buttermilk, whey, dried milk products, fresh dairy products (milk, cream, curd, cheese products, yoghurt, desserts, curd cheese, glazed curd cheese, and fermented dairy products)).

The basic activity of ABF “Šilutės Rambynas” (controlled company) is the production and sale of fermented cheese and cheese products, as well as the production and sale of pasteurized cream, pasteurized whey and concentrated whey (NACE: C 10.5. Manufacture of dairy products; C 10.51. Operation of dairies and cheese making). Furthermore, the company provides transportation and storage Services, Services related to servicing of milk buying-up points and other Services.

II. INFORMATION OF AUTHORISED CAPITAL AND SECURITIES OF THE GROUP OF COMPANIES

Information related to securities (including associated companies), their turnover

On 16 July 2004 the Company concluded a contract with AB “Šiaulių bankas”, address: Tilžės Str. 149, Šiauliai, under which management of securities accounts of the Company was delegated to AB “Šiaulių bankas” as of 23 July 2004.

The register (accounting) of securities of ABF “Šilutės Rambynas” is kept by AB “Šiaulių bankas” under the contract dated of 16 July 2004.

Data on securities

AB ŽEMAITIJOS PIENAS

ISIN number	LT0000121865
Abbreviation	ZMP1L
List/segment	BALTIC SECONDARY LIST
Nominal value	EUR 0.29
Name of securities	Ordinary registered shares
Issued number (pcs.)	48 375 000
Listed issued number (pcs.)	48 375 000
Listing start date	1997.10.13
Shares listed in supplementary list	1997.10.13
Total number of voting rights granted by shares	48 375 000
Number of shares held by the Company	2 227 228

Only the shares issued by the Company are quoted on the supplementary list of “NASDAQ OMX Vilnius” (hereinafter referred to as Vilnius Stock Exchange) (Ticker symbol: ZMP1L). Securities of AB “Žemaitijos pienas” were first time listed at Vilnius Stock Exchange on 13 October 1997. ISIN code of the securities: LT0000121865. Below there is the information on the transactions carried out at Vilnius Stock Exchange with AB “Žemaitijos pienas” shares over the course of 2018 and price change dynamics ¹.

¹

<http://www.nasdaqbaltic.com/market/?instrument=LT0000121865&list=3&pg=details&tab=historical&lang=lt¤cy=0&date=&start=2017.01.01&end=2017.01.31>

ŽEMAITIJOS PIENAS, AB

Registration number 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**ANNUAL REPORT****FOR THE YEAR ENDED 31 DECEMBER, 2018**

During the reporting period price of securities of the Company at the public trade market regularly decreased, and value of shares in the end of 2018 reporting period decreased 13.79 per cents comparing to 31 December 2017 (see the diagram provided afore).

Results (prices of Company stock purchase and sale transactions) of trading in Company stock show that the capitalization of the Company shares totalled more than 72 million Euros. Only 412 420 shares of AB "Žemaitijos pienas" were involved in transactions at Vilnius Stock Exchange in 2018, which is substantially less than the number of transactions in 2017 (when the turnover was 521 664 shares).

Below there is the information on trading in Company stock in 2015 - 2018.

Index	2015	2016	2017	2018
Opening price	0.703	0.64	1.07	1.74
Maximum price	0.73	1.15	1.99	2.16
Minimum price	0.61	0.617	1.07	1.42
Final price	0.644	1.07	1.74	1.5
Turnover, pcs.	639 686	6 213 064	521 664	412 420
Turnover, millions	EUR 0.42	EUR 6.4	EUR 0.82	EUR 0.71
Capitalization, millions	EUR 31.15	EUR 51.76	EUR 84.17	EUR 72.56

It should be noted that trading in the Issuer's securities on other stock exchange markets and other organized regulated markets was not carried out.

ABF ŠILUTĖS RAMBYNAS

ISIN number	LT LT0000109217 LT 0000118945 LT 0000125668
Nominal value	EUR 2.90
Name of securities	Ordinary registered shares
Issued number (pcs.)	859 665
Listed issued number (pcs.)	Not listed
Total number of voting rights granted by shares	859 665
Number of shares held by the Company	0

ABF "Šilutės Rambynas" shares have not been sold at Vilnius Stock Exchange Market and other organized regulated markets.

AB "Žemaitijos pienas" holds 87.82% of ordinary registered shares of ABF "Šilutės Rambynas" (disposes both property and non-property rights without any restrictions). ABF "Šilutės Rambynas" does not hold shares of AB "Žemaitijos pienas". Both Companies do not manage shares of each other neither on the basis of orders nor on other contractual bases. It should be noted that AB "Žemaitijos pienas" Consolidated Management Report contains detail information on management peculiarities.

Authorised capital

As of 31 December 2018 the authorized Capital of AB "Žemaitijos pienas" consisted of:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Authorised capital share (%)
Ordinary registered shares ²	48 375 000	0.29	14 028 750	100

All shares of the Company are fully paid up and were not the subject to restrictions on stock reassignment (in so far as the Issuer knows) over the course of the reporting period. The Issuer is unaware of any individual agreements between the shareholders, which may result in restrictions on stock reassignment and/or voting rights. According to the data available to the Company there are no shareholders who would have special control rights (see AB "Žemaitijos pienas" Consolidated Management Report for more details).

As of 31 December 2018 the authorized Capital of ABF "Šilutės Rambynas" consisted of:

Class, type of shares	Number of shares (pcs.)	Nominal value (EUR)	Total nominal value (EUR)	Authorised capital share (%)
Ordinary registered shares	859 665	2,90	2 493 028,50	100

All ABF "Šilutės Rambynas" shares are fully paid up and are subject to no restrictions on stock reassignment (in so far as the Issuer knows). The Issuer is also unaware of any individual agreements between the shareholders,

² Ordinary registered shares shall mean ordinary shares of the Company that grant no special privileges nor impose any restrictions on rights. These are company share Capital shares whose owners (shareholders) become members of the Company who have the right to vote in annual meetings, receive dividends from Company profits as well as have other rights and obligations provided for in the laws.

which may result in restrictions on stock reassignment and/or voting rights. According to the Company's knowledge there are no shareholders who would have special control rights.

Acquisition and disposal of own shares

In 2011 financial year AB "Žemaitijos pienas" purchased 10 AB "Žemaitijos pienas" regular registered shares with nominal value of 1 (one) LTL (EUR 0.29) for LTL 18.00 (EUR 5.21) through the official offer market of NASDAQ OMX Vilnius Stock Exchange. In December of 2012 the Company purchased 1 360 010 shares for LTL 2 992 000 (EUR 866 543.10) under contract of agency. In 2013 the Company purchased 710 611 of its own shares.

On 28 June 2016 the Company announced³ it intends to purchase some of its shares but no such transactions took place. In 2017 the Company neither intended to nor purchased any of its shares. On 25 June 2018 the Company purchased 62 223 shares, on 23 July – 34 827 shares, on 3 September 2018 – 59 557 shares. Currently the Company owns 2 227 228 own shares (nominal value of EUR 0.29 each), which makes up 4.60 per cents of all AB "Žemaitijos pienas" shares. One of the reasons to encourage purchase of own shares is opportunity to dispose these shares to Company's employees thus encouraging them to produce higher added value for the Company and its shareholders.

The company has not disposed any of its shares during the reporting period and has not entered into any other transactions, e.g. no shares were pledged and no rights granted by the shares were any way restricted. ABF "Šilutės Rambynas" has not purchased any of its shares and owns none thereof under any other circumstances.

III. OVERVIEW AND PERSPECTIVES OF ACTIVITIES OF THE GROUP OF COMPANIES

Overview of the activities, condition and development

One of the main objectives of the Group of Companies is high-quality and safe products. This objective is not only achieved by own efforts, but also through attracting third parties – specialists – experts (auditors). In 2018 the Company was assessed according to various requirements of international food safety and quality management standards and compliance with them.

During the reporting period special attention was paid to the needs of 'niche' export markets and to the production of products intended for these markets, as well as to their assessment and certification for Islamic (Halal) and Jewish (Kocher) requirements:

- 1) On 12 09 2018 "Total Quality Halal Correct Certification" (Netherlands) auditors successfully audited processes of production of powdered dairy products, cheese and butter and issued "Halal" Certificate.
- 2) On 17 10 2018 "Orthodox Union Kosher Certification Centre" (Israel) auditors successfully audited processes of production of powdered and fresh dairy products and issued "Kosher" Certificate.

The Company has also been assessed according to the international standards of food safety and quality management recognized by the Global Food Safety Initiative (GFSI)⁴:

- 1) On 19-21 March 2018 the auditors of UAB "Bureau Veritas" carried out an audit of all processes of AB "Žemaitijos Pienas" according to ISO 22000 "Food Safety Management System. Requirements for any organization in the food production chain" + ISO / TS 22002-1 "Food Safety Essentials. Part 1: Food production and additional requirements under FSSC 22000". The audit was carried out without prior coordination of the audit date and plan. Audit conclusion: The Company meets the requirements of the Certified Standards.

The company was assessed and audited in accordance with the requirements of Lidl and the Biedronka trading network.

³ <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=717766&messageId=899591>

⁴ Audits performed confirm that the produced products are of high quality and meet all international quality standards, they can be sold at all markets worldwide.

The Company continues implementation of the Project (see previous Annual Reports) signed in 2016 with the NATIONAL Paying Agency regarding assignment of support within the scope of the “Investments in processing of agricultural products, in marketing and (or) development” field of activities under Lithuania’s 2014-2020 Rural Development Program measure “Investment in tangible assets”. The main objective of the investment is to increase the competitiveness of the Company, which would solve environmental problems, improve product quality and work conditions and safety of employees. The main investment directions are focused on cheese and butter production, raw material and production logistics and warehousing. The planned investments will also aim to improve product quality, ergonomics of packaging, reduce pollution discharged into wastewater and use energy costs more efficiently. The aim is that equipment and technological processes would meet customer expectations and ensure that the end product is safe and quality for the buyer.

During 2018 the Company acquired new equipment or/and implemented new measures and made other investments, i.e.:

- 1) Automation of pasteurized milk lines, including automated distribution, visualization and interim operation management. The aim of the project is to reduce wastewater contamination, more accurate traceability, sanitation and quality assurance, elimination of human factor.
- 2) New running gear, isothermal bodies and refrigeration equipment for product logistics. The aim of the project is to reduce the costs of logistics and ensure the quality requirements of the outgoing products.
- 3) Reconstruction of a production building and a storage facility with a radio-controlled trolley racking system, as well as the purchase of electric forklifts, is an optimization of the production and logistics process, which will reduce production and logistics costs.
- 4) Butter project consisting of cream maturing, butter production and packing and putting in logistic boxes. It also provides for checking the weight of the prepacked product and the X-ray device for impurities and foreign bodies. The equipment is fully automated, from start to finish. The goal is product quality, reduction of energy costs and improvement of environmental requirements.
- 5) Cheese production project, production of hard and semi-hard cheese blocks. Separate line blocks, curing equipment designed for this line, brine filtration and saline preparation units will save time by re-routing, replacing shapes from round-type cheeses to block-type cheeses, improving quality and employability.

Investments also bring economic returns, for example, during the year 2018 the Company transported 10.86 million km or -3.4% less than in 2017, but the amount of cargo transported is 385 thousand tons (slightly increased). Furthermore, in 2018 we invested 0.440 million EUR into vehicles, which meet Euro 6 emission requirements. The purpose of the investment is to reduce the pollution of the nature and to use the fuel more efficiently.

It should be noted that in 2018 a new logistics warehouse was opened in Kaunas city with a storage area of 1200 m² and a distribution area of 200 m². This investment will improve the quality of the supply chain throughout Kaunas region and serve as an intermediate station for export flows to Europe and other parts of the world.

Products and trademarks

The vision to represent Žemaitija Region culture worldwide by creating tasty and unique products was continued and realised in 2018. The mission is to create continuously added value for the Group of Companies, its shareholders and the Customer. Marketing is an integral part of a successful business, so in 2018 the staff of AB “Žemaitijos Pienas” paid a lot of attention to this. Work results positively evaluated at national and international exhibitions, and products (brands) have received awards at the exhibitions listed below:

- 1) International Food and Beverage Exhibition “Foodex Japan 2018” Tokyo, Japan (6-9 March 2018);
- 2) The largest international food and beverage exhibition “SIAL China 2018” in Shanghai, China (16-18 May 2018);

- 3) Agrobalt 2018 Agricultural and Food Industry Exhibition, held every two years (24-26 May 2018). Awards: Gold Medal to 36 Months Džiugas - for breakthrough in export markets and gold medal to Žemaitija Region - for representing Lithuania's name worldwide;
- 4) International Awards and Exhibition International Cheese Awards Nantwich, United Kingdom (24-25 July 2018). The awards received at the exhibition: The Golden Medal in "Cheese for Children" category awarded to Pik-Nik Twiller, silver medal in "Vegetarian Cheese" category awarded to 24 month Džiugas; bronze medal in "The Best New Dairy product" category awarded to Žemaitija kefir cocktail with banana and strawberry; Highly recommended award in the Catering and food service category awarded to Džiugas cheese in cubes;
- 5) International Food Industry Exhibition "SIAL Paris 2018" Paris, France, held every two years (21-25 October 2018);

It should be noted that new products are constantly updated and developed. In November 2018 hard cheese DŽIUGAS® represented to the Customers several special taste mature cheeses. Hard cheese DŽIUGAS SPECIAL AGED of 100 month maturity – matured for even 3 300 days and hard cheese DŽIUGAS EXTRA AGED of 120 month maturity – matured for even 3650 days, and cheese of 10 year maturity – DŽIUGAS EXTRA Old. Furthermore, considering that we live in the country where sunny days are not abundant, and residents feel lack of vitamin D, in 2018 we introduced "Pik-Nik Twiller" to the market enriched with vitamin D, and from 1 May 2018 we introduced updated glazed curd bars „MAGIA“ – wrapped in chocolate containing 67% cocoa dry matter. Under market conditions we respond to needs of Consumers for selection of healthy and more nutritious products – we gradually reduced sugar content in ecological yoghurts "Dobilas" - an average of about 10% in the first half of the year, and fruit abundance in the second half of the year - naturally giving up some sugar.

Outcomes of activities of the Group of Companies

The Company selects the main Standard financial parameters used by many companies when analysing financial data. Main financial indices reflecting activities of the Group of Companies in 2017-2018 are as follow:

Financial indices	Group		Company	
	2018	2017	2018	2017
Turnover, thousands of EUR	177.878	172.280	176.799	170.849
Gross profitability, %	20.41	20.92	19.77	19.36
Net profitability, %	6.02	3.13	5.89	2.45
EBITDA, thousands of EUR	12.653	10.845	12.099	9.145
EBITDA profitability, %	7.11	6.29	6.84	5.35
ROE profitability, %	13.19	6.96	14.69	6.18
ROA profitability, %	9.38	5.39	9.45	4.61
General liquidity ratio	2.08	3.42	1.56	2.73
Quick ratio	0.97	1.78	0.71	1.28
Debt-to-equity ratio	0.41	0.29	0.55	0.34
Debt ratio	0.29	0.23	0.36	0.25
Total investment into non-current assets, thousands of EUR	19.799	10.258	19.201	9.489

The above parameters were calculated using the following formulas:

Gross profitability = gross profit / sales income. *Gross profitability (or gross profit margin) shows the company's ability to earn profit from primary company activities, control the level of sales income and sales costs. The higher the gross profit sum earned on each euro of sales income, the more efficient the company.*

Net profitability = net profit / sales income. *Net profitability ratio is the company's financial result, one of the most important (if not the most important) characteristics for company owners. Net profitability as a sales income and net profit ratio serves as good definition of profitability of the company's activities. The monetary equivalent shows the amount of profit earner on one euro of sales. The higher the value of this parameter, the higher the company's profitability.*

EBITDA = net profit + income tax + interest expenses + depreciation and amortization costs. *Earnings before interest, taxes, depreciation, and amortization (EBITDA) is easy to calculate by adding income tax and interest expenses as well as depreciation and amortization costs to net profit. This value is important when seeking evaluation free of company activity funding costs and effects of amortization and depreciation. EBITDA profit is often used with or even instead of cash flow value.*

EBITDA profitability = EBITDA / sales income.

ROE profitability = net profit / equity Capital. *The return on equity (ROE) parameter, also known as equity profitability index, is a measure of efficiency of use of funds invested by the owner. This helps decide whether owner funds are used efficiently. This is highly dependent on the structure of the company's Capital. ROE shows the amount earned by the company's management using company equity that belongs to shareholders.*

ROA profitability = net profit / assets. *The return on assets (ROA) parameter is a measure of asset use efficiency. Return on assets determines the ability to profitably use all of the assets. It shows how much of the assets returns in the form of profits. ROA shows the amount earned by the company's management from all of the used assets.*

General liquidity ratio = short-term assets / short-term obligations. *General liquidity ratio, also known as current liquidity ratio, shows the company's ability to meet short-term obligations with its short-term assets. It determines how much short-term assets exceed obligations. It defines the company's ability to meet short-term obligations using short-term assets. The value shows how much short-term assets cover a single euro of short-term obligations.*

Quick ratio = (short-term assets - inventories) / short-term obligations. *Critical liquidity ratio, also known as quick ratio, shows the company's ability to use promptly (quickly) selling short-term assets to meet short-term obligations, which is why reserves as subtracted from the short-term assets as low-liquidity assets. It determines how much the most liquid assets exceed short-term obligations. Critical liquidity determines the company's ability to meet short-term obligations using its most agile (quickly monetizable) assets.*

Debt-to-equity ratio = sums payable and obligations / equity. *Debt-to-equity ratio, also known as leverage ratio, shows how much debt there is for each euro of equity. This parameter is also used as an indicator of the Capital structure and financial leverage group. Here, unlike in the case of general creditworthiness, the higher the value of this parameter, the worse is the company's ability to pay up. **Debt (indebtedness) ratio = sums payable and obligations / assets.** Indebtedness ratio, also known as debt ratio, shows how much debt there is for each euro of assets. The lower the value of this parameter, the more the assets cover the debts, which is why banks and other creditors value low debt ratio. This parameter is also used as an indicator of the capital structure and financial leverage group.*

All business market participants are particularly interested in the profitability of sales. Compared to 2017, the Company's overall profitability in 2018 increased slightly from 19.36% to 19.77%. We can assume that the growth of sales has resulted in a steady increase in gross profit. Overall profitability of the Group slightly decreased, as gross profit of ABF "Šilutės Rambynas" in 2018 decreased by 1.5 million Euros comparing with 2017 due to unfavourable price situation in the world dairy market, labour, fuel consumption growth. The increase of the Company's gross profit shows the Company's ability to earn profit from the main activity and the ability of the managers to profitably sell the Company's and the Group's products and the proper orientation of price competition policy, increase of production efficiency.

For the purpose of calculating net profit, all expenses of the Company and the Group, including those that may be unrelated to direct business or may be one-off, as well as assessed expenses, such as accruals, depreciation, etc., are assessed. Compared to 2017, the Company's net profit increased by 2.49 times, i.e. from EUR 4.2 million to EUR 10.4 million. The Group's net profit increased by 2 times, as ABF "Šilutės Rambynas" net profit in 2018 decreased by 0.627 million euros compared to 2017. Profit enhancement was driven by the search for sales and marketing staff to create new markets, related businesses, and find competent sales staff in strategic countries. The Net Sales Profitability Indicator reflects the true profitability of sales, taking into account all income and expenses. Company's EBITDA for 2018 increased by 32% compared to 2017; Group's EBITDA for 2018 increased by 17%. The Company did not have any financial liabilities in 2017, therefore there was no interest in the calculation of the EBITDA for 2017, when in 2018 the respective amount of interest was calculated in EBITDA.

ROE and ROA profitability of the Company and the Group in 2018 is twice as high as in 2017 due to the growth of net profit.

The Company's and the Group's total liquidity ratios in 2018 are lower than in 2017, as the Company's short-term liabilities in 2018 were settled by the balance of the bank loan. Although the loan was granted until June 2023, but due to non-compliance with some of the non-financial indicators (investment in property, plant and equipment), the Company transferred the loan balance from long-term liabilities into current liabilities. Company's overall liquidity ratio for 2017 was 2.73, compared to 1.56 in 2018. Group's overall liquidity ratio for 2017 was 3.42, compared to 2.08 in 2018. The gross liquidity ratio shows how many times the Company's current assets are larger than its current liabilities. The most acceptable variation of the indicator is within the range of 1.2-2.0. The range of the interval varies between different industrial sectors.

In 2018, the Company's and the Group's quick (solvency) ratios decreased compared to 2017 for the same reasons as the overall liquidity ratios. In 2017 the Company's quick (solvency) ratio indicator was 1.28 and in 2018 - 0.71. In 2017 the Group's quick (solvency) ratio indicator was 1.78 and in 2018 - 0.97. The quick (solvency) ratio indicator shows whether a Company could quickly pay off its short-term liabilities from the most mobile (fast-cash) asset. Usual value is from 0.5 to 1.5, the value below 0.5 is considered unsatisfactory.

The debt to equity ratio (indicator) of the Company and the Group increased in 2018 compared to 2017 due to financial liabilities. Debt-to-equity ratio elsewhere can be called a financial dependency ratio, revealing the Company's capital structure. This is done by comparing the Company's debts with the Company's equity. This solvency ratio is close to the overall solvency ratio (constant solvency ratio), the only difference being that it is reversed, i.e. the counter and denominator change their places. As a rule, the opinion is that if the value of the indicator is slightly different from the unit, then the state of the company in terms of solvency is considered normal, the value at 0.5 good. It should be noted that the interpretation of the value of this indicator is highly dependent on the industry in which the company operates. Let's say in branches that require large capital injections, even indicator 2 can be considered good.

In 2017 the Company's debt ratio / indicator was 0.25 when compared to 0.36 in 2018. In 2017 the Group's debt ratio / indicator was 0.23, when it was 0.29 in 2018. This indicator shows what portion of borrowed funds is used to form the company's assets. The lower value of this indicator is considered to be better because the company is considered to be less risky.

As the Company has financial liabilities in 2018, it has calculated *Interest coverage ratio*.

Interest Service Indicator is a financial indicator that compares an entity's EBIT profit with interest expense. This ratio shows the ability of the company to redeem its debts. The lower this figure, the worse the company is. The higher this indicator, the easier it is for the company to cope with its financial leverage. If the rate of interest coverage is close to or below 1, this would signal the critical position of the company.

The interest rate is calculated as follows:

$$\text{Interest Rate} = \text{EBIT} / \text{Interest Cost.}$$

The Company's and the Group's interest / coverage ratios for 2018 are over 100.

The Company's operating expenses in 2018 (26.2 million euros) accounted for 14.82% of turnover, when in 2017 (28.4 million euros) it was 16.6% of turnover. The Group's operating expenses in 2018 (EUR 26.8 million) accounted for 15.1% of turnover, compared to 17.1% of turnover in 2017 (EUR 29.5 million). The most significant impact on the decrease in operating costs was the reversed allowance of cost of production (2.58 million euros).

Comparison of amounts and prices of raw milk purchased by AB "Žemaitijos pienas" in 2018 and 2017:

Purchase of raw milk (recalculated to basic indices⁵)	2018	2017	Difference between 2018 and 2017, %
Amount of purchased milk, thousands of tons	386	377	+2.39 %
Milk purchase price, EUR/t	253	260	-2.69 %

Average amount of purchased milk in 2018 amounted to 386 thousand tons, i.e. 2.39 per cent more than in 2017 (2017: 377 thousand tons). Average the price of natural milk purchased 2018 is 253 EUR/t, which is 2.69 per cent lower than in 2017 (The price of natural milk purchased in 2017 is 260 EUR/t). The increase in the purchase of raw milk is related to the expansion of dairy farms. In 2018 the drop in prices for milk purchased was influenced by the fall in prices for raw cream, butter, skimmed milk flour and cheese on the world market. The subsidiary company ABF "Šilutės Rambynas" does not purchase the raw milk directly from the dairy farms, because the raw milk is purchased from AB "Žemaitijos pienas".

Products sold by AB "Žemaitijos pienas" in 2017-2018 break down into product types as follows:

Product group name	Turnover, thousands of EUR		Difference between 2018 and 2017, %
	2018	2017	
Fermented and processed cheese	73 246	72 271	1 %
Fresh milk products	56 825	52 106	9 %
Butter and mixed fat spreads	15 028	16 158	-7 %
Powdered milk products	12 799	13 329	-4 %
Other products	18 901	16 985	11 %
Total	176 799	170 849	3 %

⁵ Milk purchased is recalculated to the basic using an appropriate factor calculated from the amount of fat and protein.

Products sold by AB "Žemaitijos pienas" Group in 2017-2018 break down into product types as follows:

Product group name	Turnover, thousands of EUR		Difference between 2018 and 2017, %
	2018	2017	
Fermented and processed cheese	76 207	76 686	-1 %
Fresh milk products	57 005	52 288	9 %
Butter and mixed fat spreads	15 028	16 158	-7 %
Powdered milk products	12 799	13 329	-4 %
Other products	16 839	13 819	22 %
Total	177 878	172 280	3 %

Sales of AB "Žemaitijos pienas" in 2018 compared to 2017 in general increased by 3%. Sales of other products increased the most (by 11 percent) from 16.984 thousand EUR in 2017 to 18.901 thousand EUR in 2018. Other products include raw milk, raw cream, castor, water products and ice cream. The turnover of this production has increased due to the significant increase in the sales of raw milk on the Polish market, as in previous periods such sales were not carried out. The biggest drop in sales, by product type -7 percent, is a mixture of butter and lubricant fat from 16.158 thousand EUR in 2017 to 15.028 thousand EUR in 2018. The decrease in the turnover of butter and butterfat mixtures is related to 2017 in the world, as well as in Lithuania, the price of butter has increased significantly. The increase in this price around the world was due to a shortage of raw material (a decrease in the quantity of milk produced and a stock of low-fat products in warehouses) and an increase in the consumption of butter resulting in an increase in the selling price of the butter produced by the Company. 2017 butter sales have increased compared to 2016, but in 2018 the sales of butter have decreased. The market has somewhat stabilized and demand for butter and spreads has declined significantly, resulting in lower sales volumes.

Geographic (secondary segments) breakdown of sales of AB "Žemaitijos pienas" in 2017-2018:

Geographic breakdown of sales	Turnover, thousands of EUR		Percentage from general income	
	2018	2017	2018	2017
Lithuania	92 617	89 967	52 %	53 %
Other Baltic States and CIS Countries	26 171	30 070	15 %	17 %
Other European Countries	48 012	42 607	27 %	25 %
Other	9 999	8 205	6 %	5 %
Total	176 799	170 849	100%	100%

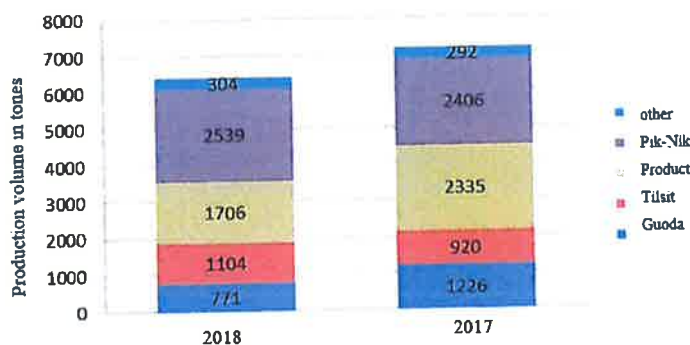
Geographic (secondary segments) breakdown of sales of the group of Companies in 2017-2018:

Geographic breakdown of sales	Turnover, thousands of EUR		Percentage from general income	
	2018	2017	2018 m.	2018
Lithuania	90 726	88 331	51 %	51 %
Other Baltic States and CIS Countries	28 544	32 507	16 %	19 %
Other European Countries	48 188	42 801	27 %	25 %
Other	10 420	8 641	6 %	5 %
Total	177 878	172 280	100%	100%

Since the Company's sales in 2018 compared to 2017 increased by 3 per cent, the change in sales by geographical segments has changed slightly. AB "Žemaitijos pienas" receives the largest share of income from Lithuania, which accounts for more than half of total sales revenue, i.e. in 2018 - 52 per cents, and in 2017 - 53 per cents. Sales to other Baltic States and CIS countries in 2018 was 15% of total sales revenue, which is three percentage points less than in 2017, was mainly driven by decreased sales to Uzbekistan (~ 47 per cent) and other CIS countries. Other European countries in 2018 made 27 per cent of sales revenue, i.e. two percentage points more than in 2017, the change in structure growth was driven by the almost double increase in sales to the Italian and Slovak markets, as well as by 2018 sales to Poland increased by as much as 16%, which is one of the largest export countries. The smallest part of the sales revenue of Ab "Žemaitijos pienas" is made up of other countries (in 2018 it was about 6 per cent, and in 2017 - 5 per cent), such as Israel, Lebanon and others. The highest sales turnover in 2018 exporting countries - Poland, Latvia, Germany.

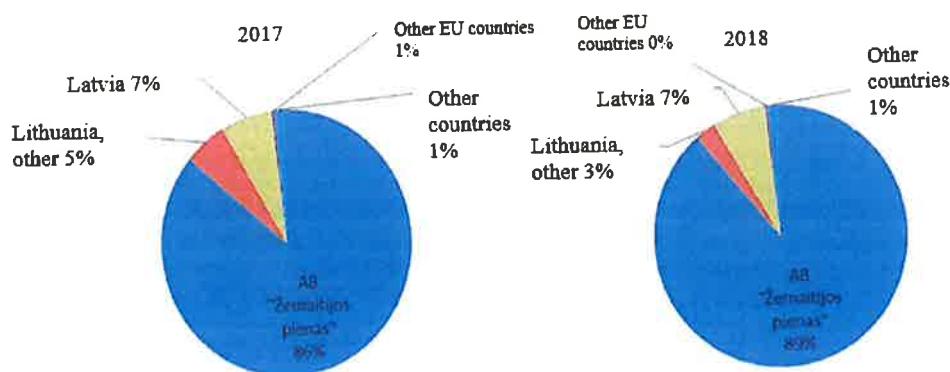
Sales of ABF "Šilutės Rambynas"

The Company specializes in production of cheese. Production scopes in 2017-2018 are demonstrated on the diagram provided below:



In 2018 6424 tons of cheese were produced, or 756 tons (10.5 per cent) less than in 2017. Production decreased due to unfavourable market situation, i.e. low prices. The production of fermented cheeses (Gouda and Tilsit) was 1875 t, while in 2017 2146 tons were produced (a decrease of 12.6%). The production of fermented cheese decreased by 26.9 per cent from 2335 to 1706 tons. Meanwhile, the production of loose cheese sausages increased by 5.5% over the comparable period and 4.1% by other cheeses. As the raw material was bought only 2.5 per cent less than in 2017, part of it was processed into lean milk and sold as raw produce in AB "Žemaitijos Pienas" or UAB "Laktopolis" (exported to Poland).

The majority of the products produced in the Associated Company are sold through the parent company AB "Žemaitijos Pienas". The structure of sales by markets is graphically represented:



In 2018, production was sold for EUR 34.669 thousand or by 9.4 per cent less than in 2017, when sales amounted to EUR 36.726 thousand. The decrease in sales was determined by the decrease in production volumes due to unfavourable prices.

The major part of ABF "Šilutė Rambynas" sales are carried out through AB "Žemaitijos Pienas", therefore the Company does not need to invest in marketing separately. 2018 was devoted to a negligible amount of sales development in the markets of the Middle East.

Types of risks, their factors and uncertainties, risk management

Changes in raw milk prices are one of the main factors resulting in business risk and business uncertainty. In this operating segment, it is particularly difficult to plan a long-term economic activity, as the price of raw milk varies not only during the winter - summer period, but particularly unexpected significant price changes in the global markets for milk purchased are also unfavourable.

The results of activities of the Group of Companies are determined by the sales of products, the volumes of which directly determine the production potential of production, which is not fully utilized at the moment. The significant competition of dairy products in the sales markets (domestic and export markets), the continued Russian embargo on Lithuanian dairy products, the cheapness of Polish products due to higher production capacities and other reasons lead to restrictions on sales and certain uncertainties of the Company's products. The Group of Companies specializes in the production of fresh dairy products and cheeses, the majority of their income comes from the sale of these products in the domestic market, but the continuously decreasing number of residents in Lithuania has a negative impact on the company's income, profit and overall financial position.

Another more pronounced risk is that the liquidity of receivables is managed through commercial credit or other insurance forms for almost all export turnover, as well as the system of prepayment for customers with higher financial risk. AB "Žemaitijos Pienas" has formed and operating Audit Committee, which assesses the main risks and their factors, makes proposals to the management and controls their implementation.

It should be noted that the Group of Companies strive to minimize economic risks by finding new markets for product sales, and the lack of raw milk are compensated by purchasing milk in neighbouring countries. Among other things, the Group of Companies is constantly looking for ways to modernize production and reduce costs and to avoid any operational risks or minimize them.

Financial and other risk and their management, protection measures, other financial aspects are disclosed in Chapter 28 "Financial Risk management" of the Explanatory Note of the Annual Audited Report for 2018, as well as in the Consolidated Management Report of AB "Žemaitijos pienas" (Chapter "Key Risk Factors and Risk Management").

Business plans and forecasts of the group of Companies

The Managers of the Company, having considered their business plans and strategy, have confirmed that 2019 will be the year of the Company's BREAKTHROUGH. The main goal is to sell the products of the Group companies directly to the shelves of strategic foreign trade networks with their own brands.

The Company seeks to use the opportunities for quick development in the competitive environment. Long-term goals of the Group of Companies are to become and be a strong, technically modern, and reliable company attractive to investors. To find and maintain the most profitable markets for our products in the European Union, the Baltic and other countries of the world by giving priority to the closest markets, as well as to the markets of Germany, France and England. To make maximum possible use of the existing production capacities. The Group of Companies regularly carries out market research, its demand of new products by organising degustations, attracting scientists and using advanced scientific methods to improve and create new dairy products as a result. Furthermore, the objective of the Company is to become closer to customers by supplying and selling goods directly to a customer.

The essential current objectives and plans of the Company are as follow:

- To purchase milk in accordance with market conditions but not at a higher price than that paid for raw milk by other market participants in Lithuania and purchase high-quality milk only;
- To increase sales at the prices favourable to the Company;
- To focus on the sales of higher value-added products on export markets.

The lack of skilled labour forces the Company to focus on human resources, so special attention is paid to team building, development of competence and qualification, formation of special skills, revision and improvement of motivation systems.

Regularly changing and dynamic market of the sale of products and the purchase of raw milk, as well as other factors, force the Group of Companies to refrain from publishing the turnover and profit forecasts for the upcoming activity periods.

Information of research and development activities of the Company

The Company and its subsidiary (jointly or separately) continuously make investments and seek ways to ensure continuous growth of income and improvement of activity effectiveness. In 2019 the Company plans to spend for investments about 10 million euros. 5 million Euros of the planned amount will be allocated to the Fresh Dairy Production Unit, the remaining investment shall be allocated to the units of butter-cheese and dry dairy products. Also in 2019 we plan investments in new Euro6 standard vehicles in the amount of 0.66 million Euros. Goals remain the same - route optimization, reducing fuel consumption. Great attention will be paid to training for safe and economical driving. In 2019 investment of 0.3 million EUR is planned into a new logistics selection system in Telšiai, which will accelerate the time of production selection for Lithuanian, Latvian and Estonian customers.

The goal of the companies is to ensure production and supply of products complying with the highest possible quality standards and creating maximum possible added value, which is why the Group continuously cooperates with scientists from Lithuanian University of Health Sciences, Vilnius University, Centre for Physical Sciences and Technology under Kaunas University of Technology as well as experts from Lithuania and abroad. The Company carries out laboratory tests in laboratories of National Food and Veterinary Risk Institute, Eurofins, Hamilton, KTU MI, LSMU Veterinary Academy and other laboratories, improving recipes, strengthening product individuality and creating new products. Uninterruptible tests are mainly oriented to improvement of available product cart.

In order to achieve higher standards, application of more advanced management methods, and development of innovative vision of both the production technology and business management as well as individual Company management and work processes Company specialist continuously train, attend practical trainings and exhibitions abroad, and cooperate with the largest suppliers while horizontally integrating best production practices in the Company's own production processes and logistics as well as implementing improvement initiatives with suppliers' production processes and products.

Activities of the Group of Companies in the field of environmental protection

AB "Žemaitijos Pienas", a company that produces and sells dairy products, which, in accordance with the criteria laid down in the Regulations for the issue, amendment and revocation of Integrated Pollution Prevention and Control Permits, refers to companies that use the equipment subject to a special permit for the performance of its activities in accordance with the above rules. Still in 2006 the Company received an Integrated Pollution Prevention and Control Permit, which is not limited in time, but is the subject to adjustment due to changes. The Company does not have a negative impact on the environment, which should be mitigated by immediate measures, however, the Company constantly monitors its performance indicators, plans and implements the latest technologies that would reduce production and operating costs and energy costs, and improve the Company's environmental condition in every way.

The Company is constantly improving its system of integrated quality and food safety management that meets the requirements of international standards BRC, ISO 22000, FSSC (ISO 22000, ISO / TS 22002-1).

The Company aims to maximize the use of natural resources by various means. As we know, natural resources determine the economic development of countries. Countries that conserve natural wealth have much greater opportunities to develop production, trade and the social sphere. The Company is well aware that its activities can cause significant damage to the environment, and only the complex use of economic, legal, technical, and biological tools can guarantee the rational use of natural resources now and in the future, so environmental impacts are controlled by harmonized monitoring programs. As the Company expands or upgrades its facilities and technology, an environmental impact assessment is carried out to ensure that the Company's development does not exceed the permissible environmental norms, as well as the production wastewater, the quality of biofuels and other factors that may affect the surrounding environment. The Company is constantly updating its fleet to reduce air pollution from mobile sources. In order to ensure the reduction of pollution from stationary pollution sources, the Company uses the best available production methods.

The waste is managed in accordance with the established environmental requirements, the annual "Waste Accounting Reports" are provided through the environmental electronic data collection system. Within the territory, hazardous and non-hazardous waste is stored and handled in a way that does not adversely affect the environment; Waste is shipped to waste recycling and timely disposal companies. AB "Žemaitijos Pienas" carries out sorting of packaging at the place of waste generation, presses it and prepares it for recycling. It also separates packaging waste for recycling but is suitable for energy recovery and systematically transmits this waste to collectors and processors.

AB "Žemaitijos Pienas" holds an important place in the packaging process. The products are packed in glass, PET, plastic, paper, composite, wooden and other packaging. For effective packaging waste management in 2018 The Company cooperated with the public institution "Žaliasis taškas", which took care of the collection and recycling of packaging. Public institution "Žaliasis taškas" received for remuneration from AB "Žemaitijos pienas" (for the submitted documents proving that the waste was disposed of) is obliged to educate the public on the management of packaging (garbage), as well as to contribute to the collection of packaging from consumer infrastructure (for sorting to supply the population).

The company is constantly implementing investment projects, which introduce new modern technologies that allow more efficient use of energy renewable resources, reduce emissions to the environment, and apply other environmental measures:

AB "Žemaitijos Pienas" constantly researches and expands to find new, environmentally friendly operating models. 2018 has introduced a new version of the business management system AXAPTA, which will help us to more accurately account, prepare and report, and deliver data to other systems.

In 2018, the company acquired equipment that will not only increase the company's competitiveness, improve product quality, and improve the working conditions and safety of its employees, but will also reduce emissions to wastewater:

- Automation of pasteurized milk lines, including automated distribution, visualization and interim operations management. The purpose of this project is to reduce wastewater contamination, more accurate traceability, sanitation and quality assurance, elimination of human factor.
- Butter project, which includes maturation of cream, production and packing of butter, fully automated management process, which improves product quality and allows for full sanitation, automated collection of fats after production, reduces wastewater contamination, new type of packaging, allows packing materials to be saved, automated control of temperature and other parameters and tracking will save energy costs.

In order to reduce emission of gases contributing to the greenhouse effect AB "Žemaitijos pienas" has assumed the initiative and either completely eliminated equipment relying on freon gas for its processes or obtained equipment that uses a more environmentally friendly type of this gas.

The Company is constantly improving its management structure for environmental issues. It was believed that all employees and their managers should contribute to the reduction of energy costs, pollution reduction, therefore in 2018 it will be necessary to reduce emissions. Environmental responsibility is not the sole responsibility of one

person, one office ecologist-engineer. At the same time, the Company started measuring wastewater pollution in each unit separately, which also allowed controlling, analysing and carrying out preventive work to prevent the discharge of polluting wastewater into the wastewater, at the same time allowed to improve the overall communication between the units, to see where more investment or organizational measures are needed to solve the problems.

The company is actively implementing and promoting the use of renewable resources. AB "Žemaitijos Pienas" has a 10MW biofuel boiler house, which uses renewable energy resources - wood chips (SM2) instead of natural gas. In 2018 AB "Žemaitijos Pienas" consumed 864.324 m³ of gas; this is 24.2% less than in the previous year, and even 84.6% less than in 2013, when the Company had not yet installed a biofuel boiler house. Biofuel 2018 The company consumed 21.888.750 t, which means that compared to 2017, consumption decreased by 0.2%.

The company, being socially responsible and caring for the environment and preserving it, buys electricity from renewable energy sources. In 2018 AB "Žemaitijos pienas" consumed 20,246,235 kWh of electricity, which means that compared to 2017, electricity consumption increased by 1.6%. In terms of indirect energy consumption data, most of the energy used in 2018 is energy for ripening and storage of cheeses, i.e. 620.644 kWh.

In 2018 AB "Žemaitijos Pienas" spent 716.706 m³ of water, which is 0.1% more than in 2017. The increase in energy resources was determined by the higher amount of recycled raw material, which is 2.6% more than in 2017. When choosing suppliers, AB "Žemaitijos Pienas" takes into account how they apply environmental strategies, whether they comply with environmental requirements, and insists that the waste shipped will be properly managed.

In the future AB "Žemaitijos Pienas" will continue to make every effort to become a more environmentally friendly company. It is expected to be able to use more energy from renewable sources in its activities and reduce emissions to the environment.

For a number of years now ABF "Šilutės Rambynas" has been emphasizing environmental safety with the primary aim of reducing the amount of production waste and save natural resources. These efforts did not go unnoticed and in 2017 Lithuanian Environmental Safety Investment Fund (LESIF) recognized ABF "Šilutės Rambynas" project "Whey concentration facility installation RO+ROP" by awarding the company a Crystal Stack for "Largest reduction of environmental pollution". When implementing the Project:

- Amount of transported whey reduced threefold: this has reduced the negative impact of transport on the environment - air pollution has decreased by 40 tons per year (CO, NO₂, SO₂, particulates). There was also a decrease in the use of noise and energy resources;
- by concentrating whey, the remaining whey water in the membrane system is cleaned to the water suitable for washing the equipment. This has reduced the use of water and wastewater.

Aspects on management of personnel and human resources of the Group of Companies

Both companies face the lack of high qualification employees. These issues are being addressed by creating long-term relations with employees by adapting and training them, encouraging them to grow professionally. Opportunities are provided for employees to deepen their knowledge and skills, improve their qualification by participating in various seminars. Programs are prepared for training and certification of specialists, production workers, hardware technicians, operators, fitters, foremen, and skilled workers. Particular attention is also paid to knowledge of foreign languages. Employees are trained in foreign languages in courses organized by the Company. The aforementioned trainings are also conducted in other training and advancement forms, including improvement of foreign language skills abroad.

Over the reporting period particular attention was paid to several field of training: improvement of employee qualification in order to ensure compliance with work quality requirements and to address the recently evident need for employees to be able to substitute for one another and to have diverse skill sets to which end employees are trained to fulfil the functions of another occupation or to undertake additional functions. To make this possible training programs are prepared and training specialists are appointed and fostered.

ŽEMAITIJOS PIENAS, AB

Registration number 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER, 2018

**AB "Žemaitijos pienas"**

As of 31 December 2018 AB "Žemaitijos pienas" had 1185 employees.

As of 31 December 2017 AB "Žemaitijos pienas" had 1163 employees.

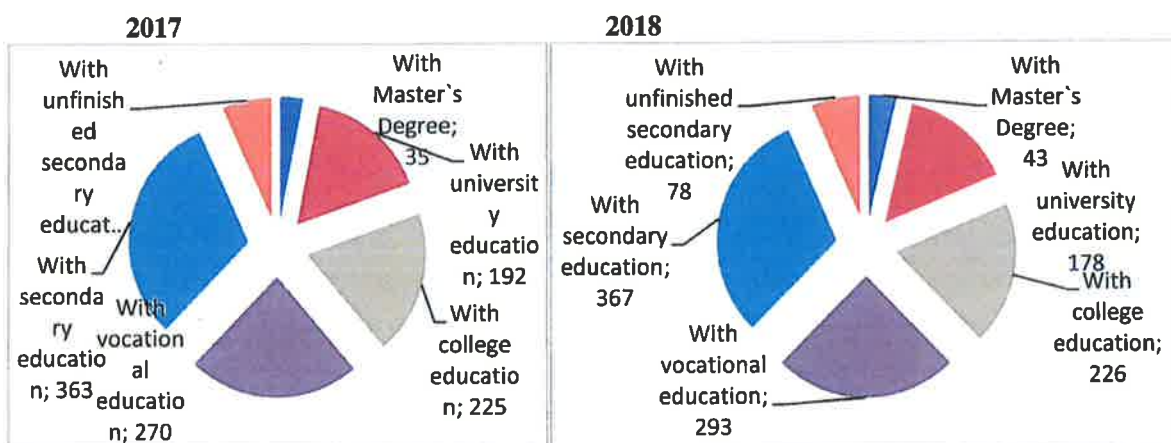
As of 31 December 2016 AB "Žemaitijos pienas" had 1214 employees.

Comparing with 2017 the number of employees increased insignificantly.

Groups of employees of AB "Žemaitijos pienas" by education (2016, 2017, 2018):

Number of employees	31 12 2016	31 12 2017	31 12 2018
With Master`s Degree	43	35	43
With University Degree	187	192	178
With College Degree	241	225	226
With Vocational Education	291	270	293
With Secondary Education	366	363	367
With unfinished Secondary Education	86	78	78
Total:	1214	1163	1185

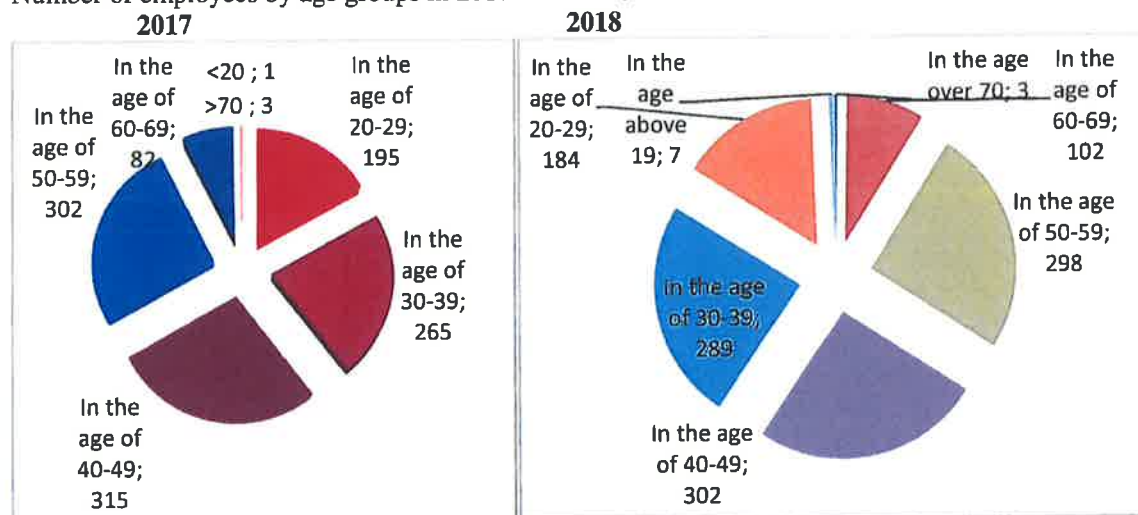
Groups of employees of AB "Žemaitijos pienas" by education (2017 and 2018):



AB "Žemaitijos pienas" employees by their corresponding groups and their average wages in EUR for corresponding employee work groups make up:

Number of employees by groups	31 12 2016		31 12 2017		31 12 2018	
	Number of employees	Average wage, EUR	Number of employees	Average wage, EUR	Number employees	Average wage, of EUR
Managers	7	4230	9	6154	9	7180
Specialists	272	1310	261	1423	258	1917
Workers	935	743	893	842	918	926
Total:	1214		1163		1185	

Number of employees by age groups in 2017 and 2018:



At AB "Žemaitijos pienas" employee rights and obligations are provided for in their occupational provisions. Employment contracts outline no special employee rights or obligations and the Company does not have a collective agreement but there is an active work board.

ABF "Šilutės Rambynas"

At the end of 2018 ABF "Šilutės Rambynas" had 188 employees, their number, comparing with 2017, decreased by 4 employees (-2.1 per cents). Changes of groups of employees by education are provided in the Table below:

Education of employees	31 12 2018	31 12 2017
With Master's Degree	7	9
With University Degree	23	20
With College Degree	26	28
With Vocational Education	63	74
With Secondary Education	50	35
With unfinished Secondary Education	19	26
Total:	188	192

The average wage in 2018 was 1164 EUR / month, or 15.2 per cent higher than in 2017. Changes in wages by employee groups are given in the Table below:

Number of employees by groups	31 12 2018		31 12 2017	
	Number of employees	Average wage, EUR/month	Number of employees	Average wage, EUR/month
Managers	7	2902	7	2186
Specialists	25	1592	31	1207
Workers	156	1018	154	917
Total:	188	1164	192	1012

The Company of the Group seeks to develop and maintain long-term relationships with its employees, especially when the labour market is not satisfying - the lack of highly qualified employees. Therefore, employees are constantly encouraged to develop in the professional field. The Company employees have the opportunity to improve their knowledge and skills in seminars and courses. There are training programs that train and certify specialists, production workers, technicians, operators, locksmiths, brigades, masters, and masters.

Other data related to the Company activities

Company administration consists of the Chief Executive Officer, Director for Production, Director for Logistics, Technical Director, Sales Manager, Marketing Manager, Purchasing Manager, Director for Personnel and Law, and Chief Accountant. The Chief Executive Officer, is in charge of the Company's Administration. Directors/Managers implement the goals and tasks posed by the Company's management bodies, carry out functions according to their assigned competence, and manage subordinate employees.

During the reporting period (2018), the Issuer charged EUR 64.878 to the members of the Supervisory Board for their activities in the Supervisory Board, i.e. EUR 21.626 per member of the Supervisory Board; the Board members were not charged and paid any amount for work in the Board, except for bonuses*. For the Directors / Managers of the Administration under the Employment Contracts, the Company has calculated a salary of EUR 775.488, for one Manager of Administration - EUR 86.165.

*In 2018, EUR 200.000 of bonuses was paid to former Supervisory Board and Board members assigned in 2016 which were appointed at the General Meeting of Shareholders held on 14 April 2017. Each member averaged EUR 20.000 and more.

In 2018, EUR 5.000 was paid to the Chairman of the Audit Committee employed under the Service Contract.

During the reporting period, no guarantees or warranties were given to the members of the Supervisory Board and the Management Board, the Chief Financial Officer / Chief Accountant and the members of the Audit Committee, nor any assets or other property rights transferred. The Supervisory Board and Board Members, Company Director, Chief Financial Officer / Chief Executive Officer, the Accountant and the members of the Audit Committee have no material obligations to the Issuer, as the Issuer has no obligations to these persons, except for unpaid portion of the bonuses allocated in 2016.

No guarantee was provided on behalf of the Issuer in 2018 on guarantees and sureties or other obligations for the members of management or supervisory bodies, other entities (Chief Financial Officer / Chief Accountant or members of the Audit Committee).

Data on members of management bodies of the Group of Companies, their earned income, management systems and other peculiarities of the Group management are disclosed in detail in AB „Žemaitijos pienas“ Consolidated Management Report.

Compliance with the Corporate Governance

AB „Žemaitijos pienas“ seeks in so far as possible and with regard for objective circumstances (reasons outside of the Company's control) to fully comply with provisions of the Corporate Governance Code for companies listed on Nasdaq Vilnius. It furthermore bears noting that particularly close observation of these provisions (by members of associated bodies) is limited by the lack of qualified, professional, and knowledgeable specialists on the market. For instance, clauses 3.7, 4.6, 4.12, and 4.13 of the report on compliance with the Corporate Governance Code are not fully adhered to because of the above reasons. Detail information is provided in AB „Žemaitijos pienas“ Consolidated Management Report and the Report on Following to the Corporate Governance Code.

Information on important events after the end of the financial year

All the important events and significant circumstances in the activities of both the Company and the Group after the audit period are disclosed in Note 30 of the Explanatory Notes.

ŽEMAITIJOS PIENAS, AB

Registration number 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER, 2018



Data on the audit

In 2018 consolidated annual information of AB "Žemaitijos pienas" is audited/was audited under the Service Contract concluded with UAB "ERNST & YOUNG BALTIC", office address Subačiaus Str. 7, Vilnius.

Parts of this Annual Report:

In 2018, audit services have been provided by the audit Company. No additional non-audit works were performed.

Parts of this annual statement:

1. Company's and Group's consolidated financial statements;
2. Corporate governance code compliance report;
3. Corporate social responsibility report;
4. Consolidated management report.

Annual Consolidated Report (2018) is signed on 15 March 2019.

Robertas Pažemeckas
Chief Executive Officer

Dalia Gecienė
Chief Accountant

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

**CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER, 2018**


(All amounts in EUR thousands unless otherwise stated)




		The Group		The Company	
	Notes	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
ASSETS					
Non-current assets					
Intangible assets	5	170	156	157	155
Property, plant and equipment	5	49,130	32,176	45,480	28,805
Investment property	6	2,847	3,021	3,668	3,948
Investments in subsidiaries and associates	1	-	1	3,150	3,152
Loans granted	7	1,804	1,839	1,804	1,839
Other financial assets		6	13	6	13
Deferred income tax asset	26	2,111	1,316	2,064	1,197
Total non-current assets		56,068	38,522	56,329	39,109
Current assets					
Inventories	8	31,058	29,501	29,415	27,457
Prepayments		292	213	279	200
Trade accounts receivable	9	17,545	17,127	17,405	17,072
Other accounts receivable	7,10	2,711	2,450	2,507	2,201
Cash and cash equivalents	11	6,499	12,277	4,352	4,688
Total current assets		58,105	61,568	53,958	51,618
TOTAL ASSETS		114,173	100,090	110,287	90,727
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	14,029	14,029	14,029	14,029
Own shares (-)	12	(1,597)	(1,323)	(1,597)	(1,323)
Legal reserve	12	1,401	1,401	1,401	1,401
Other reserves	12	5,000	5,000	5,000	5,000
Retained earnings		60,640	56,872	52,101	48,598
Equity attributable to equity holders of the Company		79,473	75,979	70,934	67,705
Non-controlling interest	15	1,656	1,585	-	-
Total Equity		81,129	77,564	70,934	67,705
Non-current liabilities					
Grants received	13	1,327	968	1,142	847
Obligations under finance lease	17	98	-	98	-
Long term provision for defined employee benefits	14	3,681	3,572	3,441	3,288
Total non-current liabilities		5,106	4,540	4,682	4,135
Current liabilities					
Loans received	18	9,000	-	9,000	-
Obligations under finance lease	17	15	-	15	-
Trade accounts payable	20	12,344	9,995	19,673	11,433
Income tax payable		-	-	-	-
Accrued expenses and other current liabilities	14, 21	6,579	7,991	5,983	7,454
Total current liabilities		27,938	17,986	34,671	18,887
Total liabilities		33,044	22,526	39,353	23,022
TOTAL EQUITY AND LIABILITIES		114,173	100,090	110,287	90,727

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 15 March 2019 and signed by:


Robertas Pažemeckas
General Director


Dalia Gecienė
Chief accountant

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2018


(All amounts in EUR thousands unless otherwise stated)



	Notes	The Group		The Company	
		2018	2017	2018	2017
REVENUE FROM CONTRACTS WITH CUSTOMERS	22	177.878	-	176.799	-
SALES	22	-	172.280	-	170.849
Cost of sales		(141.566)	(136.246)	(141.840)	(137.773)
GROSS PROFIT		36.312	36.034	34.959	33.076
Operating expenses	23	(26.793)	(29.500)	(26.203)	(28.362)
Other operating income and expenses	24	329	341	686	704
PROFIT (LOSS) FROM OPERATIONS		9.848	6.874	9.442	5.419
Financial income and expenses	25	136	(82)	169	(49)
PROFIT (LOSS) BEFORE TAX		9.984	6.792	9.611	5.368
Income tax benefit (expense)	26	721	(1.394)	810	(1.187)
NET PROFIT (LOSS)		10.705	5.398	10.421	4.182
ATTRIBUTABLE TO:					
Equity holders of the Company		10.640	5.250	10.421	4.182
Non-controlling interest		65	148	-	-
		10.705	5.398	10.421	4.182
Basic and diluted earnings per share (EUR)	16	0,23	0,11	0,23	0,09
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods					
Actuarial gains (losses) from long term provision for defined employee benefits, less deferred income tax		80	(158)	28	(158)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		80	(158)	28	(158)
Total comprehensive income (loss) for the year, net of tax		10.785	5.240	10.449	4.024
ATTRIBUTABLE TO:					
Equity holders of the Company		10.714	5.092	10.449	4.024
Non-controlling interest		71	148	-	-
		10.785	5.240	10.449	4.024

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 15 March 2019 and signed by:


Robertas Pažemeckas
General Director


Dalija Gecienė
Chief accountant

ŽEMAITIJOS PIENAS AB

Company code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts in EUR, in thousands, unless otherwise stated)



The Group	Share capital	Own shares (-)	Legal reserve	Other reserves	Retained earnings	Equity attributable to equity holders of the Company	Non- controlling interest	Total equity
Balance as of 1 January 2017	14,029	(1,323)	1,401	4,565	56,845	75,517	1,437	76,954
Net profit	-	-	-	-	5,250	5,250	148	5,398
Other comprehensive income	-	-	-	-	(158)	(158)	-	(158)
Total comprehensive income	-	-	-	-	5,092	5,092	148	5,240
Dividends	-	-	-	-	(4,630)	(4,630)	-	(4,630)
Transfer to/from reserves	-	-	-	435	(435)	-	-	-
Balance as of 31 December 2017	14,029	(1,323)	1,401	5,000	56,872	75,979	1,585	77,564
Net profit	-	-	-	-	10,640	10,640	65	10,705
Other comprehensive income	-	-	-	-	74	74	6	80
Total comprehensive income	-	-	-	-	10,714	10,714	71	10,785
Dividends	-	-	-	-	(6,946)	(6,946)	-	(6,946)
Acquisition of own shares	-	(274)	-	-	-	(274)	-	(274)
Balance as of 31 December 2018	14,029	(1,597)	1,401	5,000	60,640	79,473	1,656	81,129

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**STATEMENTS OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



The Company	Share capital	Own shares (-)	Legal reserve	Other reserves	Retained earnings	Total equity
Balance as of January 2017	14.029	(1.323)	1.401	4.565	49.639	68.311
Net profit	-	-	-	-	4.182	4.182
Other comprehensive income	-	-	-	-	(158)	(158)
Total comprehensive income	-	-	-	-	4.024	4.024
Dividends	-	-	-	-	(4.630)	(4.630)
Transfer to reserves	-	-	-	435	(435)	-
Balance as of 31 December 2017	14.029	(1.323)	1.401	5.000	48.598	67.705
Net profit	-	-	-	-	10.421	10.421
Other comprehensive income	-	-	-	-	28	28
Total comprehensive income	-	-	-	-	10.449	10.449
Dividends	-	-	-	-	(6.946)	(6.946)
Acquisition of own shares	-	(274)	-	-	-	(274)
Balance as of 31 December 2018	14.029	(1.597)	1.401	5.000	52.101	70.934

Please refer to Note 16 for dividends paid information.

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 15 March 2019 and signed by:


 Robertas Pažemeckas
 General Director


 Dalia Gecienė
 Chief accountant

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**CASH FLOW STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)




	Notes	The Group		The Company	
		2018	2017	2018	2017
Cash flow to operating activities					
Profit (loss) for the period		10.705	5.398	10.421	4.182
Adjustments:					
Depreciation and amortization	5,6	2.590	4.053	2.433	3.776
Amortization of grants received	13	(130)	(360)	(105)	(347)
Gain (loss) on disposal and write offs of non-current assets		183	(34)	165	(24)
Decrease (increase) in deferred tax asset	26	(795)	539	(867)	561
Impairment (reversal) of accounts receivable	9	203	(212)	203	(212)
Net financial expenses (income)		(136)	93	(169)	93
Impairment (reversal) of inventories to net realizable value	8	(2.669)	1.698	(2.477)	1.358
Elimination of non-cash items		56	(159)	32	(159)
Net cash flows from ordinary activities before changes in working capital		10.007	11.017	9.636	9.229
Changes in working capital:					
(Increase) decrease in inventories	8	1.112	(5.725)	519	(4.941)
(Increase) decrease in trade receivables	9	(603)	(139)	(519)	(92)
(Increase) decrease in prepayments		(81)	(12)	(80)	(46)
(Increase) decrease in other receivables		(299)	(463)	(344)	(269)
(Decrease) increase in trade payables	20	2.349	960	8.240	(289)
(Decrease) increase other accounts payable	21	(967)	3.503	(1.035)	3.276
Bonus to board members (paid)		(200)	-	(200)	-
Net cash flows from operating activities		11.318	9.140	16.217	6.869
Cash flows from (to) investing activities					
(Acquisition) of intangible assets and property, plant and equipment	5	(19.799)	(10.258)	(19.201)	(9.489)
Proceeds on sale of property, plant and equipment		207	41	207	35
(Acquisition) of subsidiaries, disposal of shares		28	-	28	-
Repayment of loans granted	7	857	1.786	857	1.786
Loans granted	7	(800)	(918)	(800)	(918)
Interest received	25	103	83	103	83
Net cash flows (to) investing activities		(19.404)	(9.266)	(18.806)	(8.504)
Cash flows from (to) financing activities					
Dividends (paid)		(6.946)	(4.630)	(6.946)	(4.630)
(Acquisition) of own shares		(274)	-	(274)	-
Grants received	13	488	202	400	202
Financial lease payments		7	7	7	7
Loan received	18	10.000	-	10.000	-
Loan (payments)	18	(1.000)	-	(1.000)	-
Other financial (income) and expenses	25	90	(176)	123	(175)
Interest (payments)		(57)	-	(57)	-
Net cash flows from (to) financial activities		2.308	(4.597)	2.253	(4.596)
Net increase (decrease) in cash and cash equivalents		(5.778)	(4.723)	(336)	(6.232)
Cash and cash equivalents at the beginning of the year		12.277	17.000	4.688	10.921
Cash and cash equivalents at the end of the year		6.499	12.277	4.352	4.688

The accompanying explanatory notes are an integral part of these consolidated and Company's financial statements.

The financial statements were approved on 15 March 2019 and signed by:


 Robertas Pažemeckas
 General Director


 Dalia Gecienė
 Chief accountant

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts in EUR thousands unless otherwise stated)

**1. GENERAL INFORMATION****Reporting entity**

AB "Žemaitijos Pienas" (hereinafter – the Company) is a public limited liability company registered in the Republic of Lithuania. The address of the Company's registered office is as follows: Sedos Str. 35, Telšiai, Lithuania.

The Company produces dairy products and sells them in the Lithuanian and foreign markets. The Company has a number of wholesale departments with storage facilities and transport means in major Lithuanian towns. The Company started its operations in 1984.

AB "Žemaitijos Pienas" is a Lithuanian public listed company with shares traded on AB NASDAQ OMX Vilnius. The nominal value of one share is 0,29 EUR.

As at 31 December 2018 and 2017, its shares are held by the following shareholders:

Shareholder	31 12 2018		31 12 2017	
	Number of shares	Ownership %	Number of shares	Ownership %
Pažemeckas Algirdas	14.014.581	28,97%	14.014.581	28,97%
Pažemeckienė Danutė	14.014.581	28,97%	14.014.581	28,97%
AB Klaipėdos pienas, code 240026930, Šilutės pl. 33, 91107 Klaipėda	2.901.844	6,00%	2.901.844	6,00%
UAB Baltic Holding, code 302688114. Vilhelmo Berbomo g. 9-4, Klaipėda	5.738.449	11,86%	665.106	1,37%
Other shareholders	11.705.545	24,20%	16.778.888	34,69%
Total share capital, shares units	48.375.000	100,00%	48.375.000	100,00%

The management report provides detailed information about the main shareholders, see p.5-6

As at 31 December 2018 and 2017 the share capital of the Company was EUR 14.028.750. The authorized capital was divided into 48.375.000 units of ordinary registered shares of EUR 0,29 par value each.

As at 31 December 2018 and 2017 the Group consisted of AB "Žemaitijos Pienas" and the subsidiary of the Company ABF Šilutės Rambynas:

Subsidiary	Registration address	Ownership of the Group	Percentage in consolidation	Cost of investment 2018	Cost of investment 2017	Net assets as of 31 December 2018	Main activities
Šilutės Rambynas ABF	Klaipėdos g. 3, Šilutė, Lietuva	87,82%	87,82%	3.150	3.150	13.598	Cheese production and selling

The Company has sold an associated company Muižas Piens SIA to related party UAB Samogitija on 18 August 2018. The sales proceeds of EUR 27 thousand is accounted as other financial income. Cost of investments in Muižas Piens SIA as at 31 December 2017 and at the moment of disposal (18 August 2018) was EUR 1 thousand.

The subsidiary ABF Šilutės Rambynas does not hold any shares of AB "Žemaitijos Pienas" as at 31 December 2017 and 2018.

The Company employed 1.185 employees as at 31 December 2018 (1.163 employees as at 31 December 2017). The Group employed 1.373 employees as at 31 December 2018 (1.355 employees as at 31 December 2017).

The Company's management authorised these financial statements on 15 March 2019. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as the IFRS), as adopted in the European Union (hereinafter referred to as the EU).

The basis for preparation of financial statements

All financial information presented in Euro is rounded up to the nearest thousand (unless otherwise stated). Since the amounts in these financial statements are presented rounded up to the nearest thousand, amounts in tables may differ due to rounding.

The financial statements are prepared on the historical cost basis.

The financial year of the Company and other entities of the Group coincides with calendar year.

When preparing financial statements in accordance with the IFRS, applicable in the EU, the management must perform calculations and estimates referring to certain assumptions, influencing the choice of accounting principles as well as the amounts of assets, liabilities, income and costs. The estimates and the related assumptions are based by historical experience and the factors, reflecting the existing conditions. On the basis of the said assumptions and estimates the conclusion is made as regards the residual values of assets and liabilities, which cannot be identified by using other sources. The factual results may differ from the performed estimates. The estimates and assumptions are continuously reviewed. The influence of changes of estimates is recognized in the period, during the which the estimate is reviewed, in case it has an influence on only the period in question or for the estimate's reviewing period and the coming periods, in case the estimate influences both the reviewing period and the future periods. (Note 4)

The accounting principles below provided were consistently applied and correspond with those applied during the previous year, unless otherwise disclosed.

Consolidation principles and accounting for investments in subsidiaries and associates

The consolidated financial statements of the Group include AB Žemaitijos Pienas and its subsidiary as well as the associate. The financial statements of the subsidiaries and associate are prepared for the same reporting period, using consistent accounting policies.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling interests, if any, are shown separately in the statement of financial position and the statement of comprehensive income.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control.

Total appropriate proportion of the comprehensive income of a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal is accounted directly in equity.

Interest in an associate

An associate is an entity in which the Company has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting rights of another company.

The Group recognises its interest in the associate using the equity method. Under the equity method the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of the associate's net assets. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The share of profit (loss) of an associate is shown on the face of the statement of comprehensive income (loss).

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill impairment is assessed annually. Once recognized, impairment losses are not reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments (in the Company's separate accounts)**Interest in an associate**

The Company accounts for its interest in the associate at cost less impairment. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired.

Interests in subsidiaries

Investment in subsidiary is measured at cost less impairment in the statement of financial position of the Company. Accordingly, the investment is initially recognised at cost, being the fair value of the consideration given subsequently adjusted for any impairment losses. The carrying value of the investment is tested for impairment when events or

changes in circumstances indicate that the carrying value may exceed the recoverable amount (higher of the two: fair value less costs to sell and value in use) of the investment. If such indications exist, the Company makes an estimate of the investment's recoverable amount. Where the carrying amount of an investment exceeds its estimated recoverable amount, the investment is written down to its recoverable amount. Impairment loss is recognised in the statement of comprehensive income as general and administrative expense for the period.

The influence of new international reporting standards, valid standard amendments and new explanations on financial statements

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group and the Company as of 1 January 2018:

- **IFRS 9 Financial Instruments**

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group/Company applied IFRS 9 prospectively, with an initial application date of 1 January 2018, no practical expedients have been used. Adoption of the standard had no impact on the Group's/Company's financial statements (therefore there is no adjustment to the opening balance of retained earnings as of 1 January 2018), except for the presentation of required additional disclosures described in the accounting policy (Note 3). The Group/Company has not restated the comparative information, which continues to be reported under IAS 39.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018 and as allowed applied it to all contracts, no practical expedients have been used. The adoption of IFRS 15 did not have an impact on the financial statements of the Group/Company (therefore there is no adjustments to the opening balance of retained earnings as of 1 January 2018), except for the presentation of required additional disclosures described in the accounting policy (Note 3 - Revenue). The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. As disclosed above, the adoption of the standard and its clarifications had no impact.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment

that changes the classification of the transaction from cash-settled to equity-settled. Adoption of the amendment had no impact on the Company and the Group financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Adoption of the amendment had no impact on the Company and the Group financial statements.

- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Adoption of the amendment had no impact on the Company and the Group financial statements.

The IASB has issued the **Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. These amendments did not have any impact on the financial statements of the Company and the Group.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Standards issued but not yet effective

The Company and the Group have not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Management has preliminarily assessed the potential impact of application of the standard. As at 31 December 2018, the Group/Company would have a lease liability of EUR 1 M and a right-of-use the asset would be approximately EUR 1 M. The impact on the income or loss for the year 2019 would be impacted as follows: decrease of operating expenses by approximately EUR 0,5 M, increase in depreciation expenses by approximately EUR 0,5 M. According to IAS 17, all lease payments under lease agreements will be presented as the principal portion of operating cash flows. The impact of the changes according to IFRS 16 is estimated to decrease operating cash flows of EUR 0,5 M and increase financial activity by the same amount. The actual impact might differ from the potential impact due to the fact that certain aspects/arrangements are still under consideration.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The

main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments would not have an effect on the financial statements of the Company and the Group.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to

influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

The IASB has issued the **Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Company and the Group have not yet evaluated the impact of the implementation of this amendment.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of Company's/Group's assets consists of the expenses directly related to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour costs and other expenses incurred to produce these assets before setting them into use and expenses of disassembling, transportation and production site cleaning.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The Company/Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a part of such item or major overhaul when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Company/Group and the cost of an item can be measured reliably. All other costs are recognised in the statement of comprehensive income as incurred.

Depreciation

Depreciation is commenced to be calculated starting from the month following the date of commencement of operation of the respective unit of non-current assets. The date of commencement of operation shall be the date, when the asset is factually ready for operation. The transfer of non-current assets into operation shall be executed by the non-current assets taking-over certificate.

Depreciation is not calculated starting from the following month, in case the non-current asset is classified as intended for sales or written-off, sold or otherwise transferred.

Depreciation of non-current tangible is calculated by applying the straight-line method during the asset's useful operation period. The amount of depreciation, calculated during the period, is shown in the accumulated depreciation costs' accounts.

In case, after a non-current tangible asset is repaired or, after estimating the reduction of value, the asset's useful life is changed, the asset's residual value shall be depreciated through the newly established remaining useful life, starting from the commencement of the period, during which the asset's useful life was verified.

The useful life of the Company's/Group's non-current tangible asset is established individually for each asset, estimating the future economic benefit, planned period, heaviness and environment of use, the changes of the asset's useful features throughout the useful operation period, technological and economic progress, which may make the asset old-fashioned, as well as legal and other factors, limiting the useful life of non-current tangible assets.

By decision of the Company's/Group's management, starting from 1 January 2017, 10-15 years' useful operation periods are applied for the newly acquired production lines (accounted for under machinery and equipment group).

In 2018, the Company and the Group have revised the residual values and useful lives of non-current tangible assets as according to IAS 16 "Property, plant and equipment" and decided to adjust the residual values and useful lives for assets that are not fully depreciated as of 1 January 2018, prospectively. The changes made accordingly to revision of residual values and useful lives were applied as at 1 January 2018 (Note 5).

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



The average useful operation periods for separate groups of the Company's/Group's non-current tangible assets are provided below:

- | | |
|--|-------------|
| • Buildings and structures | 20–40 years |
| • Machinery and equipment | 5-15 years |
| • Production lines | 10-15 years |
| • Transportation, vehicles and other equipment | 3–10 years |

The depreciation calculation methods, liquidation values and assets' useful operation periods are/shall be reviewed while preparing the financial statements, ensuring that the depreciation period corresponds to the foreseen useful operation period of the non-current tangible asset.

Constructions in progress

Constructions in progress is accounted at the acquisition cost, less impairment. The acquisition cost covers the designing and construction works, equipment and devices, transferred for installation, as well as other direct costs. No depreciation is calculated for constructions in progress. Constructions in progress is transferred to the respective groups of non-current tangible assets after the construction works are completed and the assets are ready for operation.

In case a non-current tangible asset is written off or otherwise transferred, its acquisition price and the related depreciation shall no longer be accounted in financial statements and the relating profit or loss, calculated as a difference between the book value of receipts and transferred non-current tangible assets, shall be included when calculating the activity profit.

Investment property

Investment property of the Group and the Company consist of investments in land and buildings that are held to earn rentals for capital appreciation, rather than for own use in the ordinary course of business. Investment property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of 20 - 40 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell.

Non-current intangible assets

Intangible assets that have limited useful life and that include computer software and other licences and trademarks acquired by the Company/Group are stated at cost less accumulated amortisation and impairment.

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the entire service life. The amortisation rates of intangible assets can be specified as follows:

- | | | |
|---------------------------------------|---|-------|
| • Software, licenses, acquired rights | 3 | years |
|---------------------------------------|---|-------|

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



Subsequent expenses of intangible assets are capitalised only when they increase the future economic benefits from this particular asset, which relates to the expenses. All other expenses are written off when incurred.

Impairment of non-current intangible assets is estimated when there are signs that the assets may have been affected by obsolescence.

The useful life, residual values and amortisation method are reviewed each year in order to ensure that they correspond to the foreseen character of use of noncurrent intangible assets. The Company/Group has no intangible assets with indefinite operation period.

Leased assets

Leases, in terms of which the Company/Group assumes substantially all the risks and rewards of ownership, are classified as financial leases. Assets acquired by way of financial lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. All other leases are treated as operational lease.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use an asset.

Inventories

Inventories, including production in progress and finished products, are accounted in financial statements at the lower of cost price or net realisation values after impairment evaluation for obsolete and slow moving items. The potential net realisation value is estimated by subtracting the estimated costs of finishing and sales of the products from the sales price during usual sale.

Writing of inventories down to the net realisation value, lower than their cost price, is performed when the cost price will not be covered after the inventories are sold or used. Unrealisable inventory is fully written-off. The cost of inventories is determined based on FIFO principle.

In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity distributed according to norms calculated considering the use of production capacities. Auxiliary materials and supplies are expensed at the time they are taken into use or booked to the cost of finished goods if used in production.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. Bank accounts held for the purpose of automated tax payments and reimbursements are considered as cash equivalent as well.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months and tax bank accounts.

Governmental grants related to cost compensation

Grants are accounted following the principle of accrual, i.e. received grants or parts thereof are recognised as used in the periods, within which grant-related costs are incurred.

Grants that are related to assets

Grants that are related to assets encompass grants received in the form of non-current assets or allotted for acquisition of non-current assets. Grants are accounted at the fair value of the assets received, recorded as deferred income and later recognised as income, reducing asset depreciation costs within the respective useful service life of the assets.

Impairment of non-financial assets

The carrying amounts of the Company's/Group's assets, except inventories and deferred tax asset, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For the assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised wherever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Cash generating unit is the smallest cash generating asset group generating cash flows independent from other assets or asset groups. Impairment losses are recognised in the statement of comprehensive income.

Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversals of impairment

In case of certain changes in events or circumstances, on the basis of which the recoverable value of non-financial assets was calculated, indicating that carrying value on non-financial assets can be recoverable, impairment loss is reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Dividends

Dividends are recognised as a liability in the period in which they are declared (i.e. approved by the shareholders).

Foreign currency**Translation of amounts in foreign currencies into the national currency**

Transactions in foreign currencies are translated into Euro at foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

As at 31 December 2018 and 2017, the applicable rates used for principal currencies were as follows:

	2018		2017
1 USD	=	0,8730574 EUR	1 USD = 0,8338197 EUR

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's/Company's business model for managing them. With the exception of trade receivables and contract assets (if any) that do not contain a significant financing component, the Group/Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables and contract assets (if any) that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's/Company's business model for managing financial assets refers to how the Group/Company manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

A regular way purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Group/Company commits to purchase or sell the asset.

Subsequent measurement

After initial recognition, the Group/Company measures a financial asset at:

- a) Amortised cost (debt instruments);
- b) Fair value through OCI with recycling of cumulative gains and losses upon derecognition (debt instruments). The Group/Company did not have such items as at 31 December 2018 and 2017;
- c) Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Group/Company did not have such items as at 31 December 2018 and 2017;
- d) Fair value through profit or loss. The Group/Company did not have such items as at 31 December 2018 and 2017.

Financial assets at amortised cost (debt instruments)

The Group/Company measures financial assets at amortised cost if both of the following conditions are met:

- i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Group's/Company's financial assets at amortised cost includes trade, other current and non-current receivables, loans granted.

Impairment of financial assets

Following IFRS 9, in common case scenario, the Group/Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets (if any), the Group/Company applies a simplified approach in calculating ECLs. Therefore, the Group/Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. For that purpose the Group/Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment (such as macro-economic factors of the market, employment rate, changes in consumer price index etc.).

When granting the loan the Company assesses and recognises 12-month expected credit losses. In subsequent reporting periods, in case there is no significant increase in credit risk related to the lender, the Company adjusts the balance of 12-month expected credit losses in view of the outstanding balance of the loan at the assessment date. Having determined that the financial position of the lender has deteriorated significantly compared to the financial position that existed upon the issue of the loan, the Company records all lifetime expected credit losses of the loan. Loans for which lifetime expected credit losses were calculated are considered credit-impaired financial assets.

The Group/Company considers a financial asset in default (credit-impaired) when contractual payments are 90 days or more past due or when indications exist that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The lifetime expected credit losses of loans receivable and trade receivables is recognised in profit or loss through the contrary account of doubtful receivables. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's/Company's financial liabilities include trade and other payables, loans and borrowings and finance lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below.

Financial liabilities***Loans, borrowings and other payables***

After initial recognition, loans, borrowings and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income, when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, i.e. to realise the assets and settle the liabilities simultaneously.

IFRS 9 adoption impact as of 1 January 2018

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company and the Group. Trade receivables and other non-current and current financial assets classified as Loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortised cost beginning 1 January 2018. The Group/Company had no financial assets and liabilities previously measured at fair value under IAS 39. There are no changes in classification and measurement for the Group's/Company's financial liabilities.

As described above, the adoption of IFRS 9 has fundamentally changed accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group/Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. Upon adoption of IFRS 9 the Group and the Company did not recognise additional impairment on the trade receivables or loans granted and any change in allowance accounted for in 2018 is related to individually made allowance as describe in Note 29.

Accounting policies for financial assets applicable until 1 January 2018**Non-derivative financial instruments**

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Cash and cash equivalents include cash balances and demand deposits.

Non-derivative financial instruments are initially recognised at fair value plus (except for the instruments recognised in the statement of comprehensive income at fair value) any direct attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Financial instruments are recognized on the day of transaction. The Company/Group no longer recognises the financial assets when the contractual rights to the cash flows from this asset has expired or when the right to receive the agreed cash flows from this financial asset has been transferred during the transaction, i.e. all risk and benefits from the ownership of the financial assets has been transferred. Financial liability is no longer recognised when it has been covered, revoked or expired.

Receivables are non-derivative financial assets and are not quoted in an active market. They are included into current assets except for maturities greater than 12 months. Loans issued and receivables are initially recognised at fair value. Subsequently, loans and receivables are measured at amortised cost using the effective interest method, less impairment, if any. Current receivables are not discounted.

Loans, borrowings and other financial liabilities are stated at amortised cost on an effective interest method basis. Current liabilities are not discounted.

Impairment

The carrying amounts of the Company's/Group's financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financial asset is impaired if there are if there is objective evidence that certain event or events could have an adverse impact on asset-related cash flows in the future. Individually significant financial assets must be tested for impairment on an individual basis. The remaining financial assets are grouped according to their credit risk and the impairment for those groups is measured on a portfolio basis. An asset that is deemed impaired on an individual basis and its impairment loss is continually recognised cannot be included in any group of assets that is tested for impairment on a portfolio basis.

Calculation of recoverable amount

The recoverable amount of the Company's/Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at the initial recognition of these financial assets). Receivables with short duration are not discounted.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Contingencies

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities in business combinations. Contingent liabilities are disclosed in the explanatory notes of financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed in the explanatory notes of financial statements when an inflow or economic benefits is probable.

Determination of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group and the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation

(based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values have been determined for measurement and/or disclosure purposes based on the methods described Note 28. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Long term defined employee benefits

Social security contributions

The Company and the Group pay social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in staff costs.

Defined benefit obligations

(1) Long-term employee benefits (i.e. bonus plans as per employee additional rewards policy)

The Company/Group is paying benefits to its employees based on employee additional rewards policy, which depends on the employees' years of service and are payable on certain anniversaries such as 10, 15, 20, 25 and so, on years spent at the Company/Group. This policy with its latest amendments was enforced starting the year 2017.

These employee additional rewards benefit obligations are calculated based on actuarial assumptions, using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Obligation is recognised in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits.

(2) Post retirement employee benefits

According to the requirements of the Lithuanian Labour Code, each employee leaving the Company/Group at the age of retirement is entitled to a one-off payment amounting to two-month salary.

Current year cost of employee benefits is recognised as incurred in the statement of comprehensive income. The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred.

Post retirement employee benefit obligations are calculated based on actuarial assumptions, using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Obligation is recognised in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is

determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits.

Revenue

Revenue from contracts with customers. Sales

The Company and the Group is involved in manufacturing of dairy products and their selling and distribution

Until 1 January 2018 revenue from the sale of goods is recognised in the statement of comprehensive income when significant risk and rewards associated with the goods are transferred to the buyer, when it is probable that economic benefits associated with the transaction will flow to the Company/Group and the amount of the revenue can be measured reliably. Sales are recognised net of VAT, excise tax and price discounts directly related to the sales.

Starting 1 January 2018 revenue from contracts with customers is recognized at the point in time when control of the services or goods are transferred to the customer at an amount that reflects the consideration to which the Company/Group expects to be entitled in exchange for those services or goods. The Company/Group considers that there is only one single performance obligation. Revenue from contracts with customers are recognized net of VAT, excise tax and price discounts directly related to the sales (usually provided instantly at the moment of sale).

The management considers the effect of other matters to the revenue recognition such as:

- 1) Whether there are multiple performance obligations within the contracts;
- 2) Whether there are any form of variable consideration (except for instant discounts mentioned above) and what are related constrains, if any;
- 3) Whether there are non-monetary items considerations or significant financing components;
- 4) Whether there are other promises which should considered as a part of transaction cost;
- 5) Whether the promises (if such) are consideration paid or payable to a customer;
- 6) Whether there are any upfront payments.

The Company sells raw-materials (i.e. milk that is purchased from milk-suppliers) to its subsidiary for further processing of cheese and afterwards buys back cheese produced and sells product to external customers. Since these raw materials are main ingredients used for production of cheese that is being produced by the subsidiary, and later on sold by the Company to external customers, the revenues and cost of the intra-group sale and buy-back transaction are accounted for on net basis in the Company's separate financial statements in order not to double revenues as contract with customer exist only at the Company's level and the subsidiary is acting as intermediary manufacturer.

When, the Company sells goods purchased from its subsidiary to third parties (retail entities), the Company bears all of the risks with regards to these transactions and therefore, accounts for the revenue on gross basis as defined in IFRS 15 considerations for agent vs principal.

Due to the Group's/Company's business nature the management did not make any other significant accounting judgments, estimates or assumptions relating to revenue from contracts with customers recognition except those described in Note 4.

Services rendered, assets disposed, interest income

Revenue from the services rendered is recognised in the statement of comprehensive income as the services are rendered, considering the extent of completion of the services over the time. The revenue recognised is net of VAT and net of discounts provided.

Revenue from lease is recognised in the statement of comprehensive income on a straight-line basis over the term of lease.

Revenue from disposal of assets is recognised in the statement of comprehensive income when control of the assets are transferred to the customer at an amount that reflects the consideration to which the Company/Group expects to be entitled in exchange for those assets. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or return of assets disposed is possible or when the significant risks and rewards of ownership cannot be regarded as transferred to the buyer.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



Interest income is recognised in the comprehensive income statement as accrued, using the effective interest method. The interest expense component of financial lease payments is recognised in the statement of comprehensive income, using the effective interest rate method.

Expenses

Expenses are recognized on an accrual basis when incurred.

Operating lease payments

Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of lease.

Financial lease payments

Minimal lease payments are apportioned between the financial charge and the reduction of the outstanding liability applying the effective interest rate method. The financial costs are distributed over the whole period of financial lease, so as to produce a constant periodic interest rate on the remaining balance of the liability.

Net financing expenses

Net financing expenses consist of interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses.

Borrowing Cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings (except for the capitalized part) using the effective interest method.

Segment reporting

Segment is a distinguishable component of the Company/Group that is engaged either in providing related products or services, or in providing products or services within a particular economic environment which is subject to risks and rewards that are different from those of other segments. In the presented financial statements a business segment means a constituent part of the Group and the Company participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

Corporate income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, including also adjustments in respect of prior years. The tax rates used to compute the amount are those that are (substantially) enacted by the date of the statement of financial position.

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The effective income tax rate applicable for companies of the Republic of Lithuania in 2018 was 15 % (15 % – in 2017).

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred taxes are calculated using the liability method.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised in the statement of financial position to the extent the Management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Starting from 1 January 2014 deductible tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%. Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments.

Such carrying forward is disrupted if the Company/Group stops its activities due to which these losses were incurred except when the Company/Group does not continue its activities due to reasons which do not depend on the Company/Group itself.

The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

According to legislation on taxation in effect, the Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out a tax inspection of the Company and the Group entities and impose additional taxes or fines by reassessing taxes calculations. The Group's management believe that all the taxes are properly calculated and paid according to the prevailing tax laws and it is not aware of any circumstances that may give rise to a potential material liability in respect of taxes not paid.

Basic and diluted earnings (loss) per share

The Company/Group presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company/Group by the weighted average number of ordinary shares outstanding in circulation during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects off all dilutive potential ordinary shares. During the reporting periods there were no dilutive potential ordinary shares issued by the Company/Group.

Subsequent events

The events which occurred after the reporting period and provide additional information about the Group's and the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. The post balance sheet events which are not adjusting events are disclosed in the explanatory notes when are material.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually reviewed and are based on historical experience and other factors, representing current situation and reasonable expected future events. Management of the Company, considering forecasts and budget, borrowing needs, fulfilment of obligations, products and markets, financial risk management, having performed operation continuity assessment, considers that there are no material doubts in the assessment of continuity of the Company's/Group's activities or doubts concerning its further operation.

The Company/Group makes estimates and assumptions concerning future events. Resulting accounting estimates will, by definition, seldom equal the related actual results. In preparing the financial statements of the Group and of the

Company, management have to adopt certain decisions, estimates and assumptions, which influence the amounts of income, costs, assets and liabilities as well as uncertainties as of the date of the financial statements. However, uncertainty of such estimates and assumptions can have an impact upon results, which may require significant corrections of book values of assets or liabilities in the future.

At the date of the preparation of these financial statements, the underlying assumptions and estimates were not subject to a significant risk that the carrying amounts of assets and liabilities will have to be adjusted significantly as a result of changes in estimates in the subsequent financial year.

Revenues

The Management made the judgment related to the marketing services (acquired from customers) accounting (consideration paid or payable to a customer as mentioned above). Based on Management judgment marketing related services acquired from customers (retailers) represent distinct services related to various advertising and marketing activities provided to the Group, and therefore all marketing expenses incurred over the financial period are accounted under the Operating Expenses caption in the consolidated and Company's separate statements of comprehensive income.

Impairment losses on receivables and loans granted

The Company/Group reviews its receivables to assess impairment regularly. As described in accounting policy, ECL provision matrix model defined in IFRS 9 is used for trade receivables, but in addition the Company/Group is making allowances on individual assessment basis for certain debtors. The Company/Group has identified that the loss rates are less than 0.7% from total receivables, after considering forward looking estimates it was decided that these do not have impact on loss rates. For majority of its trade receivables, the Company/Group has used the provision matrix, while for few isolated and not homogenous cases, an individual assessment, as described further, was made. In determining whether impairment loss should be recorded in the statement of comprehensive income, the Company/Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables as well as if the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with the group of receivables.

Accounts receivable impairment losses are usually recognised after the delay of payment in according to payment terms for 90 days or more.

Management estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Managements estimates that loans granted contains low credit risk. The judgment is based on assessment of the debtors structure and their ability to cover the debts including historical level of defaults (very low) as well as forecasted future economic environment impact. In addition it is noted that the loans are collateralized and have high LTV. Therefore the ECL was concluded as immaterial.

For the assessment of allowance on related party trade receivables, please refer to Note 29.

Inventory net realizable value and provision for obsolescence

Inventories include a significant part of the Group's and the Company's total assets in the statement of financial position. As at 31 December 2018 and 2017 the Group's and the Company's management assessed whether carrying value of the outstanding stock was not higher than its net realizable value (as further described in Note 8). The management has also assessed the allowance for obsolete inventories, by determining obsolescence rates (based both on historical data and also future expected sales) and assessing whether allowance for obsolete inventories is adequate. As at 31 December 2018 the Group's and the Company's allowance for the inventories amounted to EUR 1.869 thousand and EUR 1.517 thousand, respectively (EUR 4.538 thousand and EUR 3.994 thousand as at 31 December 2017, respectively). The Company has formed this allowance by assessing various obsolescence related information (such as: production date, taste specifics, etc) and also the Management's forecast of future sales. Based on Groups's policy, 100% allowance for matured hard cheese over 5 years has been formed. In 2018, the allowance of inventories

was reversed in amount of EUR 2,477 thousand, the reversal is mainly related to the fact that the Company unexpectedly succeeded to realise hard matured cheese using agency services. The Management does not expect such significant sales in year 2019. The summary of net realizable value and allowance for obsolete inventories is provided in Note 8.

Related-party transactions

In the normal course of business the Company and the Group enter into transactions with their related parties. These transactions are aimed to be priced predominantly at market rates. Judgment is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties, when such information is known to the Company/Group.

Long-term defined benefit obligations

As disclosed in Note 3 of these financial statements, the Company/ Group have accounted for long-term defined benefit obligations for its employees based on the requirements of the Lithuanian Labour Code and also based on additional contractual obligations concluded in the Company's/Group's employee additional rewards policy.

As further disclosed in Note 14, the determination of the present value amount of these future obligations involves significant judgement in areas such as: inflation rate, employee turnover rate, interest discount rate, etc.

Profit-sharing bonuses to suppliers

The Company/Group pays various types of bonuses to the milk suppliers, most of which are based on the quantity and quality of the milk and are paid out on a regular basis. Besides this, the Company/Group at its own discretion depending on various other factors (such as: the market conditions, quality of milk, Company's/Group's results, etc.) may also pay additional annual profit sharing bonuses to its suppliers.

The Management of the Company exercises significant judgment when deciding both on the actual amount of bonuses to be paid and also on whether these bonuses are actually going to be paid out.

As at 31 December 2018 and 2017 the Company/Group have not recorded any liability with regards to these additional annual bonuses as there was no contractual obligation existing as at 31 December 2018 and 2017 with the suppliers and the payment of these bonuses is solely at the discretion of the Company/Group.

Contingencies

As disclosed in Note 27 of these financial statements, the Company/Group had several open legal cases for which the final outcome and the potential outflow of resources embodying economic benefits was not yet known and therefore difficult to anticipate. Based on the current Management's judgement it is more likely than not, that the Company/Group will not suffer material consequences as the outcome of these cases.

The Management of the Company exercises significant judgment in determining whether the potential impact of an open legal case may have a material impact on the financial statements and accordingly whether a provision at the balance sheet date shall be made, as well as whether and what disclosures are required related to such cases.

Deferred tax assets and liabilities

Deferred profit tax assets and liabilities are recognised for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. Based on the Company's and the Group's management judgements are recognized the significant deferred tax assets amounts that can be recognised based on the expected future taxable profits in periods and sizes, and with regard to the Company's/Group's tax planning strategies.

Going concern

The Company and the Group financial statements were prepared on going concern basis. The Company has an outstanding bank loan in the amount of EUR 9.000 thousand. As disclosed in Note 18 a loan covenant was breached and long-term part of the loan was reclassified to short-term liabilities. The management of the Company believes that the breach is formal and no action is to be taken by the bank against the Group. Regardless, the general liquidity ratio is 1,6 and 2,1 of the Company and the Group, respectively, and the Group generates material amounts of operating cash flows. Accordingly, the management of the Company has not identified any events or conditions that, individually or collectively, may cause significant doubt on the entity's ability to continue as a going concern. No other indications of going concern are identified.

Changes of accounting estimates and errors

Change of an accounting estimate is a correction of the carrying value of an asset or liability or the amount of an asset's gradual consumption, performed after estimating the asset's current condition and potential future usefulness, as well as the future liabilities. Changes of accounting estimates result from new circumstances or new information therefore they are not considered corrections of errors.

An accounting estimate is revised in case of change of the circumstances, under which the estimate was performed or if there emerges new information or experience. Due to its nature, a revision of an estimate is recorded prospectively.

During 2018 the Company and the Group partly reconsidered estimates in respect of useful lives on certain items of property plant and equipment as further disclosed in Note 5.

To the extent the change of an accounting estimate results in changes of assets and liabilities, the result of change is aimed at correcting the carrying value of the respective asset, liability or property article for the reporting period, during which the change was made.

The corrections of the previous reporting period may result from misstatements in the financial statements for one or more prior periods arising from a failure to use comprehensive and/or reliable information that was available when financial statements for those periods were authorised for issue, and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Among such corrections are consequences of incorrect mathematical calculation, incorrect use of the accounting policies, human error or incorrect interpretation of facts when recognizing, estimating or providing the elements of financial statements.

They are corrected retrospectively in the comparative information, provided in the financial statements for the current reporting period. There were no correction on errors during the year 2018.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)

**5. INTANGIBLE AND TANGIBLE NON-CURRENT ASSETS****Changes in intangible assets of the Group:**

The Group	Aquired rights and patents	Computer software	Licenses	Total
Acquisition cost				
As of 1 January 2017	81	240	357	679
-acquisition	23	1	87	111
-sold or written-off assets	-	-	(6)	(6)
As of 31 December 2017	105	241	438	784
-acquisition	85	15	9	109
-sold or written-off assets	-	-	-	-
As of 31 December 2018	190	256	447	893
Accumulated amortisation				
As of 1 January 2017	49	208	302	559
-amortization	17	19	39	74
-amortization of sold and written-off assets	-	-	(6)	(6)
As of 31 December 2017	66	226	335	627
-amortization	38	10	48	96
-amortization of sold and written-off assets	-	-	-	-
As of 31 December 2018	104	236	383	723
Net Book Value				
As of 1 January 2017	32	33	55	120
As of 31 December 2017	39	14	103	156
As of 31 December 2018	86	20	64	170

Changes in intangible assets of the Company:

The Company	Aquired rights and patents	Computer software	Licenses	Total
Acquisition cost				
As of 1 January 2017	81	226	357	665
-acquisition	23	-	87	110
-sold or written-off assets	-	-	(6)	(6)
As of 31 December 2017	105	226	438	769
-acquisition	85	-	9	94
-sold or written-off assets	-	-	-	-
As of 31 December 2018	190	226	447	863
Accumulated amortisation				
As of 1 January 2017	49	195	302	547
-amortization	17	18	39	74
-amortization of sold and written-off assets	-	-	(6)	(6)
As of 31 December 2017	66	213	335	614
-amortization	38	6	48	92
-amortization of sold and written-off assets	-	-	-	-
As of 31 December 2018	104	219	383	706
Net Book Value				
As of 1 January 2017	32	31	55	119
As of 31 December 2017	39	13	103	155
As of 31 December 2018	86	7	64	157

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



In 2018 amortization of non-current intangible assets of the Group and the Company amounts to EUR 96 thousand and EUR 92 thousand respectively (In 2017 – EUR 74 thousand and EUR 74 thousand, respectively). Amortisation expenses of intangible assets are recognised as Operating expenses in the statement of comprehensive income (Note 23).

Investments in the purchase of non-current intangible assets made by the Group and the Company in 2018 amount to EUR 109 thousand and EUR 94 thousand, respectively (in 2017 - EUR 111 thousand and EUR 110 thousand). All the acquisitions above are located in Lithuania.

As at 31 December 2018, the Company and the Group have EUR 547 thousand and EUR 559 thousand (EUR 534 thousand and EUR 545 thousand as at 31 December 2017, respectively) of fully amortized non-current intangible assets that are still in use.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in EUR thousands unless otherwise stated)


Changes in property, plant and equipment of the Group:

The Group	Land, buildings and constructions	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress and prepayments	Total
Acquisition cost						
As of 1 January 2017	17.786	61.762	11.832	4.585	1.893	97.859
-acquisition	211	2.109	559	246	6.280	9.404
-sold or written-off assets	(3)	(119)	(227)	(1.754)	-	(2.102)
-reclassification	5	353	-	-	(359)	-
-transfers to investment property	(2.275)	-	-	-	-	(2.275)
As of 31 December 2017	15.724	64.106	12.164	3.076	7.814	102.886
-acquisition	867	5.433	382	690	12.290	19.662
-sold or written-off assets	(148)	(619)	(1.750)	(324)	-	(2.841)
-reclassification	5.835	10.831	26	216	(16.908)	-
-transfers to investment property	(719)	-	-	-	-	(719)
-transfers from investment property	210	-	-	-	-	210
As of 31 December 2018	21.769	79.752	10.822	3.658	3.195	119.196
Accumulated depreciation						
As of 1 January 2017	8.324	46.064	10.659	3.940	-	68.988
-depreciation	529	2.663	300	315	-	3.807
-depreciation of written-off and sold assets	(2)	(114)	(227)	(1.749)	-	(2.092)
-reclassification	4	-	-	-	-	4
-transfers to investment property	(32)	-	-	-	-	(32)
As of 31 December 2017	8.822	48.613	10.732	2.506	-	70.675
-depreciation	420	1.623	178	116	-	2.337
-depreciation of written-off and sold assets	(11)	(517)	(1.708)	(212)	-	(2.448)
-reversals (subsidiary)	2	-	-	-	-	2
-reclassification (subsidiary)	82	(82)	-	-	-	-
-transfers to investment property	(635)	-	-	-	-	(635)
-transfers from investment property	118	-	-	-	-	118
As of 31 December 2018	8.799	49.637	9.202	2.410	-	70.048
Impairment						
As of 1 January 2017	35	-	-	-	2	38
-impairment losses	-	-	-	-	-	-
-reversal of impairment	(4)	-	-	-	-	(4)
As of 31 December 2017	31	-	-	-	2	34
-impairment losses	-	-	-	-	-	-
-transfers to investment property	(12)	-	-	-	-	(12)
-reversal of impairment	(2)	-	-	-	-	(2)
As of 31 December 2018	17	-	-	-	2	19
Net book value						
As of 1 January 2017	9.427	15.698	1.173	645	1.891	28.834
As of 31 December 2017	6.871	15.493	1.432	570	7.812	32.176
As of 31 December 2018	12.955	30.114	1.621	1.248	3.192	49.130

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)

**Changes in property, plant and equipment of the Company:**

The Company	Land, buildings and construct ions	Machinery and equipment	Vehicles	Other property, plant and equipment	Constructio n in progress and prepaymen ts	Total
Acquisition cost						
As of 1 January 2017	12.834	55.623	8.727	4.150	1.605	82.939
-acquisition	211	2.002	494	188	5.579	8.474
-sold or written-off assets	(3)	(116)	(227)	(1.754)	-	(2.099)
-adding value	-	63	-	17	-	80
-reclassification	(2.275)	-	-	-	-	(2.275)
As of 31 December 2017	10.767	57.573	8.994	2.601	7.184	87.119
-acquisition	867	5.317	620	649	11.528	18.981
-sold or written-off assets	(148)	(578)	(331)	(250)	-	(1.306)
-adding value	-	92	-	8	-	100
-reclassification	5.695	10.300	26	216	(16.235)	-
-transfers to investment property	-	-	-	-	-	-
-transfers from investment property	210	-	-	-	-	210
As of 31 December 2018	17.391	72.705	9.309	3.224	2.476	105.105
Accumulated depreciation						
As of 1 January 2017	4.956	40.765	7.639	3.581	-	56.941
-depreciation	428	2.507	279	279	-	3.493
-depreciation of written-off and sold assets	(2)	(111)	(227)	(1.749)	-	(2.089)
-transfers to investment property	(32)	-	-	-	-	(32)
As of 31 December 2017	5.350	43.161	7.691	2.111	-	58.313
-depreciation	355	1.498	173	101	-	2.127
-depreciation of written-off and sold assets	(11)	(476)	(290)	(156)	-	(933)
-transfers to investment property	-	-	-	-	-	-
-transfers from investment property	118	-	-	-	-	118
As of 31 December 2018	5.812	44.183	7.574	2.056	-	59.625
Impairment						
As of 1 January 2017	-	-	-	-	-	-
- impairment losses	-	-	-	-	-	-
-reversal of impairment	-	-	-	-	-	-
As of 31 December 2017	-	-	-	-	-	-
- impairment losses	-	-	-	-	-	-
- reversal of impairment	-	-	-	-	-	-
As of 31 December 2018	-	-	-	-	-	-
Net book value						
As of 1 January 2017	7.878	14.858	1.088	569	1.605	25.998
As of 31 December 2017	5.417	14.412	1.303	490	7.184	28.806
As of 31 December 2018	11.579	28.522	1.734	1.169	2.476	45.480

For the year ending at 31 December 2018 the depreciation costs of the Group's and the Company's property, plant and equipment amount to EUR 2.337 thousand and EUR 2.127 thousand, respectively (2017 – EUR 3.807 thousand and EUR 3.493 thousand).

The amount of depreciation accounted under the caption 'Cost of Sales' for the financial years 2018 and 2017 amounts to EUR 1.618 thousand and EUR 2.408 thousand by the Company, respectively. By the Group, EUR 1.776 thousand and 2.608 thousand, respectively. The rest of the Company's and the Group's depreciation is accounted under the 'Operating expenses' caption. Part of the depreciation amount is also accounted under the 'Inventory' caption in the value of unsold Inventories as of 31 December 2017 and 2018.

During the year 2017, the Company and the Group have reviewed the depreciation rates / useful lives of part of its vehicles and part of the machinery and equipment group. The effect of this change in estimate has amounted to EUR 1.660 thousand and EUR 1.866 thousand of lower depreciation expenses for the year 2017 for the Company and the Group in comparison to depreciation rates / useful lives valid in year 2016.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



In 2018, the Company and the Group have revised the residual values and useful lives of non-current tangible assets as according to IAS 16 "Property, plant and equipment" and decided to adjust the residual values and useful lives for assets that are not fully depreciated as of 1 January 2018, prospectively. Both the residual values and useful lives were reviewed.

As a result of changes in estimate, depreciation costs of the Company and the Group for 2018 have decreased by EUR 1.647 thousand and EUR 1.379 thousand, respectively, in comparison to residual values / useful lives valid in year 2017. Similar effect to the depreciation expenses is expected for the future periods.

All of the acquisitions of non-current tangible and intangible assets made by the Group and the Company during year 2018 and 2017 as disclosed above relate to the Lithuanian segment.

Part of property, plant and equipment of the Company and the Group with the acquisition cost amounting to EUR 42.410 thousand and EUR 49.450 thousand, respectively, was fully depreciated as at 31 December 2018 (EUR 42.413 thousand and EUR 50.937 thousand as at 31 December 2017), but was still in use.

6. INVESTMENT PROPERTY

	The Group	The Company
Acquisition cost		
As of 1 January 2017	214	2.972
- depreciation	824	824
- transfers from property, plant and equipment	2.275	2.275
As of 31 December 2017	3.313	6.071
-acquisition	26	26
-transfers from property, plant and equipment	719	-
-transfers to property, plant and equipment	(210)	(210)
As of 31 December 2018	3.848	5.887
Accumulated depreciation		
As of 1 January 2017	93	1.881
- depreciation	168	210
- transfers from property, plant and equipment	32	32
As of 31 December 2017	292	2.123
-depreciation	179	214
-transfers to property, plant and equipment	(118)	(118)
-reversals (subsidiary)	2	-
-transfers from property, plant and equipment	635	-
As of 31 December 2018	990	2.219
Impairment		
As of 1 January 2017	-	-
-impairment losses	-	-
As of 31 December 2017	-	-
-impairment losses	-	-
-reversal of impairment	(2)	-
-transfers from property, plant and equipment	12	-
As of 31 December 2018	10	-
Net book value, Eur thousand:		
As of 1 January 2017	121	1.091
As of 31 December 2017	3.021	3.948
As of 31 December 2018	2.847	3.668

Investment property has been evaluated by independent valuator on 20 April 2018 (adjusted comparable price method was used as primarily valuation method to establish fair value, level 3 in fair value hierarchy).

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



The Company's investment property in 2018 and 2017 represents rented assets to ABF Šilutės Rambynas, UAB Čia Market, other non-related parties and legal persons. As per valuation reports, the fair value of investment property is higher than net book value by approximately EUR 478 thousand as at 31 December 2018.

At the moment of acquisition, the Company and the Group use independent valuator valuations in case the assets are bought/sold within related parties. In other cases assets are purchased in competitive market at the market price.

For the year ending at 31 December 2018 the depreciation costs of the Company's investment property amount to EUR 214 thousand (2017 – EUR 210 thousand). Rental income and related costs are disclosed in Note 24.

All rent contracts are easily cancellable with a few months prior notice made by the lessee or the lessor.

There were no investment property under construction in 2018 and 2017.

Depreciation of investment property is included in the 'Operating expenses' caption.

7. LOANS GRANTED

The Company and the Group have granted loans to 17 Company's employees as at 31 December 2018 (27 as at 31 December 2017). The average annual loan interest rate: 3%.

Loans have been granted to the employees as a motivating tool based on the Regulations for Provision of Loans to employees. The maximum limit of the fund intended for these loans granted makes up EUR 230 thousand. On all occasions loans are being granted to a borrower after he/she undertakes to secure repayment of a loan by pledging his/her or another person's real estate property or using other means of security of repayment of a loan acceptable to the company (a credit institution guarantee or other). Upon assessment of a possible risk, liquidity of property being pledged and etc. a fair value of the property being pledged makes up from 100% to 200% of an amount being borrowed.

The Company and the Group have also granted loans to 73 farmers (milk-suppliers) as at 31 December 2018 (80 as at 31 December 2017). The average interest rate on loans granted: 1 m Euribor + 3,5 %. All long-term loans have been granted with collateral (land has been pledged at market prices), the loan to value collaterals are similar as for employees.

The related party Klaipėdos pienas AB owed EUR 845 thousand to the Company as at 31 December 2018 (as at 31 December 2017 – EUR 953 thousand). The loan has been granted with a variable/floating annual interest rate; a loan repayment period – the year 2029. Klaipėdos pienas AB has had pledged assets as a loan guarantee. As at 5 October 2018, pledged assets have been replaced with Zemaitijos pienas AB shares owned by Klaipėdos pienas AB. The pledge has been registered at Mortgage Register as at 5 October 2018.

	The Group		The Company	
	31 st Dec 2018	31 st Dec 2017	31 st Dec 2018	31 st Dec 2017
Loans granted:	2.543	2.600	2.543	2.600
Loans granted to related parties	845	953	845	953
Loans granted to milk suppliers	1.591	1.522	1.591	1.522
Loans granted to the staff	107	125	107	125
Current portion of loans granted (Note 10)	(739)	(761)	(739)	(761)
Loans granted to milk suppliers impairment	(17)	-	(17)	-
Non-current loans granted	1.804	1.839	1.804	1.839

All granted loans are in EUR. Granted loan's payback periods are between 1 – 12 years.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts in EUR thousands unless otherwise stated)

**8. INVENTORIES**

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Raw materials	3.537	3.429	3.040	2.928
Finished goods and work in progress	28.872	30.318	27.374	28.231
Goods for resale	518	292	518	292
	32.927	34.039	30.932	31.451
Less: Allowance for inventories	(1.869)	(4.538)	(1.517)	(3.994)
Total	31.058	29.501	29.415	27.457

Changes in the allowance for impairment of inventories (EUR thousand):

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Balance at beginning of year	4.538	2.840	3.994	2.636
Additional allowance made	-	1.698	-	1.358
Reversals of allowance made	(2.669)*	-	(2.477)*	-
Write-off	-	-	-	-
Balance at end of year	1.869	4.538	1.517	3.994

*In 2018, the significant reversal of allowance made in 2017 was made due to hard cheese sold during year 2018 (see Critical accounting estimates and judgements, Note 4)

The acquisition cost of the Group's and the Company's inventories accounted at net realizable value as at 31 December 2018 amounted to EUR 4.357 thousand and EUR 3.089 thousand, respectively (as at 31 December 2017, EUR 4.358 thousand and EUR 3.095 thousand, respectively). Changes in impairment allowance for inventories during 2018 and 2017 were recorded within the Group's and the Company's operating expenses (Note 23).

As at 31st December 2018 the value of Company's inventories held at subsidiary ABF Silutes Rambynas was equal to EUR 766 thousand, related party AB Klaipėdos pienas - EUR 7 thousand, UAB Baltijos mineralinių vandenių kompanija – EUR 226 thousand and third parties - EUR 35 thousand (as at December 2017 the values were equal to EUR 1.377 thousand and EUR 525 thousand, respectively, and EUR 25 thousand of inventories held at third parties).

The allowance formed by the Company for the inventories as at 31 December 2018 and 2017 (EUR 1.517 thousand and EUR 3.994 thousand, respectively) was formed for matured hard cheese. The Company has formed this allowance by assessing various obsolescence related information (such as: production date, taste specifics, etc) and also the Management's forecast of future sales.

The amount of inventory used (written-off) by the Group and the Company in production of goods for the financial year 2018 accounted under the caption 'Cost of Sales' amounts to EUR 99.725 thousand and EUR 96.907 thousand, respectively (EUR 99.015 thousand and EUR 97.555 thousand in 2017, respectively).

9. TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Trade accounts receivable	14.819	14.834	14.297	14.311
Accounts receivable from related parties	3.686	3.066	3.547	3.013
Total accounts receivable:	18.505	17.900	17.844	17.324
Allowance for bad debts	(621)	(584)	(100)	(63)
Allowance for bad debts of related parties	(339)	(189)	(339)	(189)
Net trade receivables:	17.545	17.127	17.405	17.072

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



Changes in the allowance for impairment of trade accounts receivable (EUR thousand):

	The Group		The Company	
	2018	2017	2018	2017
Balance at beginning of year	773	983	252	462
Additional allowance made	187	-	187	-
Reversals of allowance made	-	(221)	-	(221)
Write-off	-	11	-	11
Balance at end of year	960	773	439	252

Analysis of trade receivables based on the terms of payment on the 31st December, 2018 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables past due				
	Trade accounts receivables, not past due	Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	11.023	2.785	403	608	14.819
Allowance formed	-	-	(13)	(608)	(621)
Trade accounts receivables from related parties	1.021	2.013	225	427	3.686
Allowance formed	-	-	-	(339)	(339)

The Company (EUR thousand)	Trade accounts receivables passed due				
	Trade accounts receivables, not past due	Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	11.022	2.785	403	87	14.297
Allowance formed	-	-	(13)	(87)	(100)
Trade accounts receivables from related parties	1.009	1.886	225	427	3.547
Allowance formed	-	-	-	(339)	(339)

Analysis of trade receivables based on the terms of payment on the 31st December, 2017 (EUR thousand):

The Group (EUR thousand)	Trade accounts receivables which due term has passed				
	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	13.117	1.133	22	562	14.834
Allowance formed	-	-	(22)	(562)	(584)
Trade accounts receivables from related parties	1.478	1.538	45	5	3.066
Allowance formed	-	(189)	-	-	(189)

The Company (EUR thousand)	Trade accounts receivables which due term has passed				
	Trade accounts receivables, which period has not passed	Less than 60 days	60-120 days	More than 120 days	Total
Trade account receivables	13.116	1.132	22	41	14.311
Allowance formed	-	-	(22)	(41)	(63)
Trade accounts receivables from related parties	1.454	1.509	45	5	3.013
Allowance formed	-	(189)	-	-	(189)

For the assessment of allowance on intercompany trade receivables, please refer to Note 29.

10. OTHER ACCOUNTS RECEIVABLE

	The Group		The Company	
	31 st Dec 2018	31 st Dec 2017	31 st Dec 2018	31 st Dec 2017
Prepaid income tax	905	637	764	505
Current portion of long-term loans granted (Note 7)	739	761	739	761
VAT receivable	992	775	930	660
Other receivables	75	277	74	275
Total:	2.711	2.450	2.507	2.201

11. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	31 st Dec 2018	31 st Dec 2017	31 st Dec 2018	31 st Dec 2017
Cash at bank	6.469	12.247	4.322	4.659
Cash on hand	30	30	30	29
Total:	6.499	12.277	4.352	4.688

12. CAPITAL AND RESERVES

Share capital

The share capital is made of 48.375.000 ordinary shares with the nominal value of EUR 0,29 each, and the total share capital is EUR 14.028.750, fully paid.

The holders of the ordinary shares are entitled to one vote per fully paid share in the shareholders' meeting and are entitled to dividends as they are declared and to capital repayment in case of reduction of capital as well as other interest and non-interest as per the Company Law of the Republic of Lithuania as well as other statutes and legal acts.

On 31 December 2017 the Company owned 2.070.621 units of its shares or 4.28% of shares in total. During financial year 2018, the Company has acquired 156.607 units of own shares additionally in amount of EUR 274 thousand. On 31st December 2018 the total value of acquired shares amounted to EUR 1.597 thousand (EUR 1.323 thousand as at 31st December 2017).

On 31 December 2018 the Company owned 2.227.228 units of its shares or 4.6% of shares in total. The reason and purpose of the acquisition of own shares are to maintain and increase the price of shares in the market.

Legal reserve

Legal reserve is compulsory reserve under Lithuanian legislation. Annual contributions of at least 5% of the annual profit are required until legal reserve reaches 10% of the authorised capital. This reserve cannot be distributed. It can be used only for covering accumulated losses. Legal reserve of the Company was fully formed.

Other reserves

Other reserves are formed on basis of a decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting. According to the Law of Stock Companies, the reserves formed by the Company other than the legal reserve if not used or not planned to be used should be restored to retained earnings and redistributed.

The reserve of EUR 5.000 thousand for acquisition of the own shares was formed through the allocation of profits of the year 2016.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)

**13. GOVERNMENT GRANTS RECEIVED**

Changes in the grants received by the Group and the Company (EUR thousand):

	The Group	The Company
Grants received		
As of 1 January 2017 (balance)	7.826	5.721
- received	202	202
As of 31 December 2017 (balance)	8.028	5.922
- received	489	400
As of 31 December 2018 (balance)	8.517	6.322
Accumulated amortisation		
As of 1 January 2017 (balance)	6.700	4.728
- amortization	360	347
As of 31 December 2017 (balance)	7.060	5.075
- amortization	130	105
As of 31 December 2018 (balance)	7.190	5.180
Net book value (EUR thousand)		
As of 1 January 2017	1.126	992
As of 31 December 2017	968	847
As of 31 December 2018	1.327	1.142

The amounts of the grant received are amortized in equal parts within the respective useful service life of the asset acquired from these funds. Grant amortisation is included in the statement of comprehensive income, under the caption 'Cost of Sales' and reduces depreciation costs of non-current assets.

As according to the grant agreement, the Company and the Group is obligated to fulfil the requirements related to Company's and Group's revenue and net profit. In 2018, the Company and the Group was in compliance with the grant agreement requirements.

Based on the latest grants agreements (as described in more details in annual report part 'Overview of activities, state, and development') the Company/Group did not have any purchase commitment (EUR 9 M as at 31 December 2017).

14. DEFINED BENEFIT OBLIGATIONS

The Company has accounted for long-term defined benefit obligations for its employees based on requirements of the Lithuanian Labour Code and also based on additional contractual obligations concluded in the Company's employee additional rewards policy.

	The Company	
	31 st Dec 2018	31 st Dec 2017
Long term liability of post retirement employee benefits	288	221
Short term liability of post retirement employee benefits (Note 21)	108	79
Long term liability under additional rewards policy	3.154	3.067
Short term liability under additional rewards policy (Note 21)	535	583
Total:	4.085	3.950

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



	The Group	
	31st Dec 2018	31st Dec 2017
Long term liability of post retirement employee benefits	312	253
Short term liability of post retirement employee benefits (Note 21)	140	101
Long term liability under additional rewards policy	3.369	3.319
Short term liability under additional rewards policy (Note 21)	583	657
Total:	4.404	4.330

The movement of defined benefit obligations

	The Group		The Company	
	Post retirement employee benefits	Long term employee benefits (Premium based on additional rewards policy)	Post retirement employee benefits	Long term employee benefits (Premium based on additional rewards policy)
Balance as at 1 January 2017	271	802	230	741
Change accounted in the statements of comprehensive income	70	3.005	57	2.740
Actuarial (gain) loss	13	169	13	169
Balance as at 31 December 2017	354	3.976	300	3.650
Change accounted in the statements of comprehensive income	83	71	83	80
Actuarial (gain) loss	15	(96)	14	(42)
Balance as at 31 December 2018	452	3.951	397	3.688

The main assumptions used in assessing the liability of the Company's long-term employee benefits are presented below:

	31st Dec 2018	31st Dec 2017
Discount rate	1,67%-1,70%	1,34% - 1,57%
Inflation rate	3,00%	3,00%
Turnover rate	20%-24%	16% - 20%

Sensitivity to the discount rate, inflation rate and employee turnover rate change:

	The Group	
	31st Dec 2018	31st Dec 2017
Discount rate +0,5%	(37)	(108)
Discount rate -0,5%	191	111
Inflation +0,5%	189	109
Inflation -0,5%	(36)	(107)
Turnover rate +5%	(996)	(724)
Turnover rate -5%	994	1.005

	The Company	
	31st Dec 2018	31st Dec 2017
Discount rate +0,5%	29	(100)
Discount rate -0,5%	247	106
Inflation +0,5%	245	104
Inflation -0,5%	30	(99)
Turnover rate +5%	(878)	(654)
Turnover rate -5%	975	900

15. NON-CONTROLLING INTEREST

Financial information of subsidiaries that have material non-controlling interests is provided below.

Summarised financial information of the subsidiary is as follows (in EUR thousand):

	Silutes Rambynas ABF	
	31st Dec 2018	31st Dec 2017
Current assets	12.116	12.047
Non-current assets	3.207	2.594
Current liabilities	1.234	1.141
Non-current liabilities	240	283
Revenue	34.669	36.726
Profit	589	1.216
Total comprehensive income	589	1.216

The subsidiary paid no dividends neither in year 2018 nor in year 2017.

16. EARNINGS AND DIVIDENDS PER SHARE

Basic earnings (loss) per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary circulation shares in issue during the year.

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Net profit (loss) attributable to the equity shareholders in EUR thousand	10.640	5.250	10.421	4.182
Weighted average number of circulation shares (units)	46.147.722	46.304.379	46.147.722	46.304.379
Basic earnings (loss) per share in EUR	0,23	0,11	0,23	0,09

The Company has not issued any other securities convertible to shares. Therefore, the diluted earnings per share are equal to basic earnings per share.

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Dividends declared	6.946	4.630	6.946	4.630
Weighted average number of circulation shares (units)	46.147.722	46.304.379	46.147.722	46.304.379
Dividends declared per share in EUR	0,15	0,10	0,15	0,10

17. FINANCIAL LEASE

Future financial lease payments according to the signed financial lease contracts are as follows (EUR thousand):

Group	2018 12 31		2017 12 31	
	Minimal financial lease payments	Present value of financial lease minimal payments	Minimal financial lease payments	Present value of financial lease minimal payments
Less than 1 year	16	15	-	-
2 – 5 years	102	98	-	-
Minimal financial lease payments, EUR thousand	118	113	-	-
Less: future interest	(5)	-	-	-
Present value of minimal financial lease payments, EUR thousand	113	113	-	-

Company	2018 12 31		2017 12 31	
	Minimal financial lease payments	Present value of financial lease minimal payments	Minimal financial lease payments	Present value of financial lease minimal payments
Less than 1 year	16	15	-	-
2 – 5 years	102	98	-	-
Minimal financial lease payments, EUR thousand	118	113	-	-
Less: future interest	(5)	-	-	-
Present value of minimal financial lease payments, EUR thousand	113	113	-	-

As at 31st December 2018, the financial lease contracts of the Company and the Group are signed in EUR. The terms and conditions of the contract with all later additions do not provide any restrictions on the Company's and Group's activities, associated with dividends, additional borrowings or additional long-term rent.

18. LOANS RECEIVED

The loans of the Company and the Group as at 31st December 2018 (EUR thousand):

Creditor	Date of agreement	Loan maturity date	Currency	Interest rate	2018.12.31
AB SEB bank	2018-06-11	2023-06-11	EUR	1,35% Euribor 3 m	9.000
Total: thousand EUR					9.000

In 2018, the Company has received a loan from SEB bank in amount of EUR 10.000 thousand (EUR 1.000 thousand returned during financial year 2018). The covenants are stated per loan agreement. The Company has breached the covenant of limited investments (EUR 15 M) and has invested EUR 19,2 M in property, plant and equipment. The Company has not received a waiver from bank representatives and the total amount of long-term part of loan was reclassified to short term in the financial statements of the Company and the Group.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in EUR thousands unless otherwise stated)



Real estate which is owned by subsidiary ABF Silutes Rambynas and real estate rented to subsidiary ABF Silutes Rambynas by AB Žemaitijos Pienas are collateralized to the bank to secure the loans received by the Group.

All Company's cash hold in respective bank accounts are pledged to the bank to secure the loan received by the Group.

19. OPERATING LEASE

Future operating lease payments according to the signed operating lease contracts are as follows (EUR thousand):

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Within one year	535	992	535	992
In the second to fifth years	499	798	499	798
After five years	-	-	-	-
Total:	1.034	1.790	1.034	1.790

In the year 2018 and 2017 the currency of the payment of operating lease was EUR.

The terms and conditions of the contract with all later additions do not provide any restrictions on the Company's and Group's activities, associated with dividends, additional borrowings or additional long-term rent.

The assessment of IFRS 16 (Lease) potential impact is discussed in details in Note 2.

20. PAYABLES

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Payables to suppliers	10,484	9,150	9,964	8,487
Payables to related parties	955	496	8,937	2,597
Advances received	905	349	772	349
Total:	12.344	9.995	19.673	11.433

Trade payables are non-interest bearing and are normally settled on 30-day terms.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)

**21. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	The Group		The Company	
	31 st Dec 2018	31 st Dec 2017	31 st Dec 2018	31 st Dec 2017
Vacation reserve	1.126	1.296	931	1.131
Bonuses for employees	1.000	1.000	1.000	1.000
Wages and salaries payable	960	879	827	758
Social security payable	957	1.004	843	897
Dividends payable	811	1.337	811	1.337
Payables based on defined obligations to employees (Note 14)	723	758	644	660
Management Bonus	410	695	410	695
Accrued expenses	291	816	291	816
Taxes payable, other than income tax	254	204	185	158
Other short-term liabilities	47	2	41	2
Total:	6.579	7.991	5.983	7.454

Other payables are non-interest bearing and have an average term of one month.

22. INFORMATION ON SEGMENTS

For management purposes the Group's and the Company's business activity is organized as one main segment – dairy products production and trading :

The Group	Sales, EUR thousand		Variation in % As comparing 2018 with 2017
	2018	2017	
Fermented cheese	76.207	76.686	-0,62%
Fresh dairy products	57.005	52.288	9,02%
Butter and spreadable fat mixes	15.028	16.158	-6,99%
Dry dairy products	12.799	13.329	-3,98%
Other	16.839	13.819	21,85%
Total:	177.878	172.280	3,25%

The Company	Sales, EUR thousand		Variation in % As comparing 2018 with 2017
	2018	2017	
Fermented cheese	73.246	72.271	1,35%
Fresh dairy products	56.825	52.106	9,06%
Butter and spreadable fat mixes	15.028	16.158	-6,99%
Dry dairy products	12.799	13.329	-3,98%
Other	18.901	16.985	11,28%
Total:	176.799	170.849	3,48%

In order to better plan, organise and control sales, employees of the Marketing and Sales Division are assigned different geographic regions according to the location of final market of the products' sale.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



Information on revenue made in different geographical markets is provided below:

	The Group		The Company	
	2018	2017	2018	2017
Sales, EUR thousand:				
Lithuania	90.726	88.331	92.617	89.967
Other Baltic States and CIS countries	28.544	32.507	26.171	30.070
Other Europe countries	48.188	42.801	48.012	42.607
Other	10.420	8.641	9.999	8.205
Total, EUR thousand:	177.878	172.280	176.799	170.849

Other non-core activities are considered to be not significant, therefore such information is not provided separately to the decision makers.

For the disclosure on the revenues from transactions with a single external customer that amount to 10% or more of the entity's revenues, please refer to Note 28.

23. OPERATING EXPENSES

	The Group		The Company	
	2018	2017	2018	2017
Wages, salaries and social security**	13.714	12.560	13.395	12.293
Marketing expenses	6.672	5.468	6.671	5.443
Rent and insurance	1.939	1.789	1.939	1.649
Logistic services	1.523	1.458	1.332	1.384
Repairs	736	825	718	825
Materials	689	555	673	548
IT consulting	646	451	646	451
Taxes, other than income tax	619	289	579	254
Consulting	584	308	553	285
Depreciation or amortisation	434	696	416	666
Business trips	344	293	336	283
Trade accounts receivable impairment (reversal)	203	(210)	203	(210)
Utilities	177	234	177	215
Production for advertising purposes	92	89	92	89
Telecommunication	72	64	61	57
Pension reserve and other employee related accruals	69	1.197	69	1.180
Employee bonuses	-	340	-	340
Other expenses	949	1.392	820	1.248
Inventory allowance (reversal)	(2.669)	1.702	(2.477)	1.362
Total:	26.793	29.500	26.203	28.362

** A part of salary and social security expenses is accounted under Cost of Sales (the Company during 2018 and 2017 accounted EUR 7.453 and 7.167 thousand respectively, the Group accounted EUR 9.959 and EUR 9.460 thousand respectively)

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
EXPLANATORY NOTES
FOR THE YEAR ENDED 31 DECEMBER 2018
 (All amounts in EUR thousands unless otherwise stated)

**24. INCOME AND EXPENSES OF OTHER ACTIVITIES**

	The Group		The Company	
	2018	2017	2018	2017
Other operating income				
Goods for resale sales income	220	306	254	308
Gain on disposal of property, plant and equipment	54	41	52	35
Rental income	301	301	660	578
Income of the canteen	69	96	69	96
Other	306	114	298	224
	950	857	1.333	1.241
Other operating expenses				
Cost of goods for resale sold	(171)	(159)	(198)	(191)
Rental expenses	(247)	(166)	(246)	(155)
Other	(203)	(192)	(203)	(191)
	(621)	(516)	(647)	(537)
Net income and expenses of other activities:	329	341	686	704

Future rent income according to the signed rent agreements are as follows (EUR thousand):

Rent Income	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Less than 1 year	310	301	660	578
2 – 5 years	1.305	828	2.663	2.124
Over 5 years	6	22	-	-
Total:	1.621	1.151	3.323	2.702

In the year 2018 and 2017 the currency of the rent income agreements was EUR.

25. FINANCIAL AND INVESTMENT ACTIVITY INCOME AND EXPENSES

	The Group		The Company	
	2018	2017	2018	2017
Income from financial and investment activities				
Interest income	103	82	103	82
Foreign currency exchange gain	198	256	198	256
Other financial income	85	44	79	44
	386	382	380	382
Expenses from financial and investment activities				
Foreign currency exchange (loss)	(153)	(432)	(153)	(432)
Interest expense	(57)	-	(57)	-
Other financial expenses	(40)	(32)	(1)	-
	(250)	(464)	(211)	(432)
Total:	136	(82)	169	(50)

26. CORPORATE INCOME TAX EXPENSES (BENEFIT)

	The Group		The Company	
	2018	2017	2018	2017
Current income tax expenses	19	854	-	626
Change in deferred income tax asset	(796)	516	(866)	537
Change in deferred income tax accounted through OCI	-	24	-	24
The correction of prior year income tax	56	-	56	-
Income tax expenses (income) recognised in the statement of comprehensive income	(721)	1.394	(810)	1.187

	The Group		The Company	
	2018	2017	2018	2017
Profit before tax	9.984	6.790	9.611	5.368
Income tax, applying valid tax rate (15%)	1.498	1.018	1.442	805
Permanent differences	81	154	30	156
Investment incentive utilization	(362)	(669)	(344)	(626)
Change in deferred tax allowance	(350)	538	(350)	499
Deferred tax recognition from investment incentive that was not previously recognised	(1.644)	353	(1.644)	353
Income tax expenses (income) reported in the statement of comprehensive income	(777)	1.394	(866)	1.187
The correction of prior year income tax	56	-	56	-
Income tax expenses (income) reported in the statement of comprehensive income	(721)	1.394	(810)	1.187

	The Group		The Company	
	31st Dec 2018	31st Dec 2017	31st Dec 2018	31st Dec 2017
Deferred income tax asset				
Accounts receivable	146	116	68	38
Inventory allowance	281	681	228	599
Accrued vacation reserve	187	176	140	170
Other accrued expenses	783	825	771	763
Investment incentive	1.644	397	1.644	397
Total deferred income tax asset	3.041	2.195	2.851	1.967
Deferred income tax asset realization allowance*	(227)	(577)	(149)	(499)
Deferred income tax asset (after realization allowance)	2.814	1.618	2.702	1.468
Deferred income tax liability				
Change in depreciation rates of tangible assets	(703)	(302)	(638)	(271)
Total deferred income tax liability, in total	(703)	(302)	(638)	(271)
Deferred income tax asset, net	2.111	1.316	2.064	1.197

*The allowance of deferred income tax due to allowance for hard cheese recorded as at 31 December 2017 has been reversed as the products were partly realized during year 2018 (see Note 4)

27. COMMITMENTS AND CONTINGENCIES

During the financial year 2018 the Company had litigation proceedings indicated below.

Courts of general jurisdiction

1. The Company as a plaintiff is involved in separate legal proceedings with Public Enterprise "Packaging Organisation (PTO)" regarding agreements made on 26-02-2013 (hereinafter referred to as Agreement no.1) and 01-12-2016 (hereinafter referred to as Agreement no.2). Per agreements made, PTO was responsible for waste handling for 2013-2015 (per Agreement no.1) and 2017 (per Agreement no.2), which was not fully completed and resulted in losses for the Company. Losses stated in the claim amount to EUR 96.020 (per Agreement no.1) and EUR 73.567 (per Agreement no.2). Case regarding Agreement no.1 is currently on hold, while a court date is not assigned yet for the case regarding Agreement no.2.

The Company cannot make a reliable estimate of the outcomes of this case as the case is complicated in terms of legal interpretation and application of the law. Furthermore, there are no precedents for the matters in question.

2. The Company as a plaintiff is involved in legal proceedings with Lithuanian military as a defendant. Claim stated for losses related to the sales-purchase agreement amounts to EUR 39.000. Vilnius district court decided to fully satisfy the plaintiffs demands; however, the decision was appealed against by the defendant. The court decision made regarding the appeal will be announced on 19-03-2019.

The Company cannot make a reliable estimate of the outcomes of this case as the case is complicated in terms of legal interpretation and application of the law.

Administrative courts

1. Applicant – Žemaitijos Pienas, AB; defendant- Bank of Lithuania. The Company appealed against the decision of the Bank of Lithuania to impose an impact measure fine - EUR 158.000 (economic sanction). Vilnius District Administrative Court reduced the amount of the fine imposed by EUR 20.000. Both parties have lodged appeals; the date of the hearing is not currently set.

In 2017, the Company/Group has accounted an amount of EUR 158.000 as a possible outcome of the case under 'Other liabilities' caption in the statements of financial position.

2. Third Party – Žemaitijos Pienas, AB; applicant- Packaging Organization; defendant- Vilnius Regional Environmental Protection Department. The essence of the dispute is the decision to confirm the invalidity of the certificates which confirm the handling of packaging. The case is pending before the Vilnius District Administrative Court.

The Company cannot make an estimate of the outcome of this case as the case is complicated in terms of legal interpretation and application of the law. Furthermore, there are no precedents for the matters in question.

During the financial year 2017 the Company had two litigation proceedings which decisions and outcome are indicated below.

1) Legal case on interim bonuses to Company's Board

The essence of dispute: the plaintiffs of the case (Investors Association and V.P.) has claimed the decision of shareholder's meeting (on 16 September 2016) to pay interim bonuses of EUR 749.400 to Company's management board and the supervisory board as an unlawful act. On 3 July 2018, the Supreme Court of Lithuania has decided to accept the peace treaty between AB Žemaitijos pienas, Investors Association and V. P.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



As according to the peace treaty, the defendant AB Žemaitijos pienas has withdrawn the claims of the cassation petition and the plaintiffs - Investors Association and V. P. has withdrawn the claims of legal case. The court has dismissed the legal case as the peace treaty was accepted.

The previously returned bonuses have been repaid to the Board members in total amount of EUR 395 thousand (EUR 415 thousand including interest).

2) Legal case on purchase and sale of own shares

The essence of dispute: the plaintiffs (Investors Association and V..P) of the case has claimed the decisions of shareholder's meetings (on 16 September 2016 and 29 December 2016) related to the procedure of the purchase and minimal sale price of own shares as well as the requirement to reduce the share capital as unlawful act. On 18 July 2018, the Supreme Court of Lithuania has decided to accept the peace treaty between AB Žemaitijos pienas, Investors Association and V. P. As according to the peace treaty, the Investment Association and V. P. has withdrawn the cassation petition and the claims of legal case, the Company has withdrawn the claims of legal case and civil case initiated. The court has dismissed the legal case as the peace treaty was accepted.

The decision does not have any impact on the financial statements of the Company and the Group.

28. FINANCIAL RISK MANAGEMENT

In the course of using financial instruments, the Company and the Group face the following risks:

- ✓ Credit risk;
- ✓ Liquidity risk;
- ✓ Market risk.

The present note provides information on each of the aforementioned risks the Company/Group faces, the Company's/Group's risk evaluation goals, policy and risk valuation and management processes, as well as the Company's/Group's capital management.

The Company's management is completely responsible for development and supervision of the Company's/Group's risk management structure. The Company's/Group's risk management policy is devoted to identification and analysis of the risks the Company faces, determination of respective risk limits and controls, and monitoring of the observance of risks and limits. Risk management policy and risk management system are regularly revised to match the changes of market conditions and the Company's/Group's activities. With the help of trainings, procedures of management standards, the Company/Group aims to develop a disciplined and constructive management environment, where every employee knows his/her functions and duties.

Credit risk

Credit risk is the risk that the Company will suffer financial losses in case if a customer or another party fails to fulfil their respective obligations, and in most cases such risk is related with amounts receivable from the Company's customers.

The Company's and the Group's credit risk consisted of the following:

	The Group		The Company	
	31 12 2018	31 12 2017	31 12 2018	31 12 2017
Cash and cash equivalents	6.499	12.277	4.352	4.688
Loans granted	1.804	1.839	1.804	1.839
Trade accounts receivable	17.545	17.127	17.405	17.072
Other accounts receivable	2.711	2.450	2.507	2.201
Other	6	13	6	13
Total financial assets	28.565	33.706	26.074	25.813

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



The Group and the Company have no significant concentration of trading counterparties, which is related with one partner or group of partners with similar characteristics. There were three clients in the Group and in the Company from which outstanding trade receivables were higher than 10% calculated from total trade receivables before trade receivables allowance as at 31 December 2018 and 2017. The composition of trade receivables of such clients is stated in the table below. Moreover, the Client No. 2 generated approximately 10% of total Company's revenue during 2017 and 2018.

	The Group		The Company	
	2018 12 31	2017 12 31	2018 12 31	2017 12 31
Customer No. 1	14%	15%	14%	15%
Customer No. 2	10%	11%	10%	11%
Customer No. 3 (related party)	15%	12%	15%	12%

Customers' credit risk, or the risk, that the partners will not keep to their obligations, is managed by approving credit terms and procedures of control. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

An impairment analysis is performed at each reporting date using a provision matrix and individual assessment to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Based on the analysis performed, the Company/Group concluded that its customers fall under the low-credit risk category.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the statement of financial position. Consequently, the Group considers that its maximum exposure is reflected by the amount of financial assets presented above.

With respect to loans granted, trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognized, creditworthy third parties.

The credit risk on liquid funds is limited because the counterparties of the Group and the Company are banks belonging to international financial groups with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

Liquidity risk is the risk that, upon maturity, the Company and the Group will be unable to fulfil its financial liabilities. The Group's liquidity management objective is to maximally secure sufficient liquidity of the Group, which enables the Group to fulfil its obligations under both, normal and complicated circumstances, without suffering unacceptable losses and being exposed to the risk of losing its good reputation.

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities, bank overdrafts and credit lines to meet its commitments at a given date in accordance with its strategic plans.

As at 31 December 2018, the Company and the Group has a bank loan outstanding in the amount of EUR 9.000 thousand. As disclosed in Note 18 a loan covenant was breached and long-term part of the loan was reclassified as short-term liabilities. The management has assessed the risk of theoretical liquidity gap as disclosed in Critical accounting estimates and judgements section (Note 4) and the performance of the Group and the Company in Annual Report (p.14). No realistic going concern risk of Company's operations has been identified.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



The tables below summarise the maturity profile of the Group's and the Company's financial liabilities to banks and suppliers based on contractual undiscounted payments:

The Group	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Trade payables	-	9.500	-	-	-	9.500
Trade payables to related parties	-	495	-	-	-	495
Other financial debts	-	328	-	-	-	328
Balance as of 31 December 2017	-	10.323	-	-	-	10.323
Trade payables	-	11.389	-	-	-	11.389
Trade payables to related parties	-	955	-	-	-	955
Loans received	9.000*	-	-	-	-	9.000
Financial lease	-	-	15	98	-	113
Other financial debts	-	292	-	-	-	292
Balance as of 31 December 2018	9.000	12.636	15	98	-	21.749

The Company	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Trade payables	-	8.836	-	-	-	8.836
Trade payables to related parties	-	2.597	-	-	-	2.597
Other financial debts	-	328	-	-	-	328
Balance as of 31 December 2017	-	11.761	-	-	-	11.761
Trade payables	-	10.736	-	-	-	10.736
Trade payables to related parties	-	8.937	-	-	-	8.937
Loans received	9.000*	-	-	-	-	9.000
Financial lease	-	-	15	98	-	113
Other financial debts	-	292	-	-	-	292
Balance as of 31 December 2018	9.000	19.965	15	98	-	29.078

*As described in Note 18 (Loans received) due to covenant breach all of outstanding loan amount is reclassified to liabilities on demand. However, as described in Note 4 (Critical accounting estimates and judgements) the management does not expect the loan to be demanded for repayment before maturity. In this case, the liability outstanding from 3 months to 1 year is EUR 2.111 thousand and from 1 year to 5 years - EUR 7.177 thousand (including loan interest).

Market risk

Market risk is the risk that market price changes, e.g. raw materials (i.e. milk), foreign exchange rates or interest rates, will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control the market risk, considering certain limits, through optimisation of the return.

Foreign exchange risk

Major currency risks of the Group and Company occur due to the fact that the Group and Company is involved in imports and exports. The Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



The monetary assets and liabilities stated in various currencies were as follows (EUR thousand):

	The Group		The Company	
	31 12 2018		31 12 2018	
	Assets	Liabilities	Assets	Liabilities
EUR	28.245	31.574	25.741	38.067
USD	592	26	592	26
PLN	14	38	14	38
GBP	-	74	-	74
Other	6	5	6	5
Total:	28.857	31.717	26.353	38.210

	The Group		The Company	
	31 12 2017		31 12 2017	
	Assets	Liabilities	Assets	Liabilities
EUR	32.344	21.515	24.438	22.132
USD	1.461	25	1.461	25
PLN	112	16	112	16
Other	2	2	2	2
Total:	33.919	21.558	26.013	22.175

Fair value of assets and liabilities

The fair value of the Group's and the Company's investment property was estimated based on the third level of fair value hierarchy (Note 6).

The fair value of financial assets and liabilities provided in the statement of financial position as at the 31 December 2018 does not significantly differ from their carrying amounts.

Trade payables and receivables, except for receivables from related party Cia Market, accounted for in the Group's and the Company's statement of financial position should be settled within a period shorter than three months, therefore, it is deemed that their fair value equals their carrying amount as at 31 December 2018 and 2017 (third level of fair value hierarchy).

The fair value of non-current borrowings is based on the similar non-current borrowings available in the market or on the current rates available for borrowings with the same maturity and risk profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts (third level of fair value hierarchy).

The fair value of receivables from UAB Cia Market and loans granted to related parties by the Company is estimated by discounting expected cash flows at market interest rates, management estimates that their fair value approximates carrying amounts as at 31 December 2018 and 2017 (third level of fair value hierarchy).

Capital management

The objective of the Group's and the Company's management policy is to maintain a significant level of owner's equity compared to borrowed funds to avoid discrediting investors, creditors and market trust, as well as maintain development of activities in the future. The management observes the return on capital and presents offers on payment of dividends to owners of ordinary shares, considering the Company's financial results and strategic plans. The primary objectives of the capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value. The Group's and Company's capital consists of share capital in the amount of EUR 14 million, own shares (-) EUR 1.6 million, retained earnings, other reserves and legal reserve.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



Under the Lithuanian laws a company has to maintain its equity at no less than 1/2 of its share capital, the Company was in compliance with this requirement as of 31 December 2018 and 2017.

No changes were made to the objectives, policies or processes of the Group's and Company's capital management during the year ending as of 31 December 2018.

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The Group and the Company monitor capital using debt to equity ratio. There is no specific target for debt to equity ratio set out by the Group's and the Company's management, however the management strives for maintaining the balance between higher return, which could be achieved through a higher level of liabilities, and safety, which is provided by a higher level of owner's equity.

29. RELATED PARTY TRANSACTIONS

Related parties of the Group and the Company are:

- the parties that control, are controlled by or are under common control with the Company;
- the parties that have significant influence over the Company;
- the parties that are management members of the Company or its parent company;
- close members of the family of the aforesaid persons;
- the companies that are under control or significant influence of the aforesaid persons.

The main related parties of the Group and the Company are:

Item No.	Company Name	Company Details	Nature of Main Activities
1.	Šilutės Rambynas, ABF	Company code: 277141670; address: Klaipėdos g. 3, Šilutė, LT-99115	Dairy activities and cheese making
2.	Žemaitijos pieno investicija, AB	Company code: 300041701; address: Sedos g. 35, Telšiai, LT-87101	Renting and operating own and rented real estate
3.	Baltijos mineralinių vandenų kompanija, UAB	Company code: 141763534, address: Mažeikių g. 4, Telšiai, LT-87101	Manufacture of bottled natural mineral water
4.	Klaipėdos pienas, AB	Company code: 240026930; address: Šilutės pl. 33, Klaipėda, LT-91107	Ice-cream production
5.	Čia Market, UAB	Company code: 141354683, address: Sedos g. 35A, Telšiai LT-87101	Retail trade in non-specialized stores.
6.	Muižas piens, SIA	Company code: 40003786632, address: Bauskas iela 58a-8, 5stavs room 507, Rīga, LV-1004, Latvia	Wholesale trade in food products, marketing
7.	Samogitija, UAB	Company code: 302501454, address: Narutavičių g. 4, Telšiai, LT-87101	Production, transportation, storage, distribution, etc. of dairy and other food products.
8.	S.A.R. Dziugas France	Company code: 751860669, address: 149 avenue du Maine, Paris	Production and sale of dairy products
9.	Dziugas USA L.L.C.	Company code: 0400754292, address: Five greentree centre, ste. 104, 525 Route 73 North Marlton, NJ08053,	Wholesale import, marketing of dairy products
10.	Dziugas Eesti OU	Company code: 14324189, address: Punane 56, Tallinn, Estonia	Wholesale import, sales and marketing of dairy products
11.	Dziugas Poland	Company code: 368496450, address: ul. Luki Wielke 5, Warsaw, Poland	Activities of agents trading in food and beverages
12.	Baltic Holding, UAB	Company code: 302688114, address: Jgulos g. 18B -4, Klaipėda	IT services
13.	Nepriklausoma tyrimų laboratorija, UAB	Company code: 110824551, address: Narutavičių g. 4, Telšiai	Laboratory and other tests of materials and analysis services
14.	Dziugas Deutschland GmbH	Company code: HRB 154342, address: Chilehaus A, Fischertwiete 2 20095 Hamburg, Germany	Marketing and product sales
15.	Dziugas Hungary Kft	Company code: 01-09-325932, address: H-1132 Budapest, Váci út 22-24. VII. em., Hungary	Wholesale import, sales and marketing of dairy products
16.	Dziugas UK Ltd	Company code: 11405400; address: 10 Bloomsbury Way, London WC1A 2SL, United Kingdom	Activities of agents trading in food and beverages

Milk purchase/sales, acquisition/sales of fixed assets and inventory, purchase/sales of services and other transactions between associated parties are carried out under normal/usual market conditions.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)

**Sales to and purchases from related parties (EUR thousand):**

	The Group		The Company	
	31 12 2018	31 12 2017	31 12 2018	31 12 2017
1) Sales				
Sales of goods				
<i>To the subsidiary</i>				
Šilutės Rambynas ABF	-	-	2.824	3.697
	-	-	2.824	3.697
<i>To other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	10	13	10	13
Klaipėdos pienas AB	659	595	117	107
Žemaitijos pieno investicija AB	-	-	-	-
Čia Market UAB	7.303	7.258	7.303	7.257
Džiugas USA LLC	(30)	1.034	(30)	1.034
Džiugas Deutschland GmbH	-	-	-	-
Džiugas Eesti OU	10	-	10	-
Džiugas Poland	-	-	-	-
Nepriklausoma tyrimų laboratorija UAB	13	-	13	-
Muizas piens SIA	557	877	557	877
	8.522	9.777	7.980	9.287
Sales of inventory and services				
<i>To the subsidiary</i>				
Šilutės Rambynas ABF	-	-	411	461
	-	-	411	461
<i>To other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	33	73	33	73
Klaipėdos pienas AB	445	470	445	470
Žemaitijos pieno investicija AB	171	32	171	32
Samogitija UAB	28	-	28	-
Čia Market UAB	256	228	253	224
Muizas piens SIA	4	3	4	3
Nepriklausoma tyrimų laboratorija UAB	38	-	38	-
S.A.R.Džiugas France	-	-	-	-
Džiugas Deutschland GmbH	2	-	2	-
Džiugas Hungary Kft	-	-	-	-
Džiugas Eesti OU	2	-	2	-
Džiugas USA LLC	-	14	-	14
Džiugas Poland	5	-	5	-
	984	821	981	817
Total Sales:	9.506	10.598	12.196	14.262

ŽEMAITIJOS PIENAS ABCompany's code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



	The Group		The Company	
	31 12 2018	31 12 2017	31 12 2018	31 12 2017
2) Purchases				
<i>From the subsidiary</i>	-	-	-	-
Šilutės Rambynas ABF	-	-	9.175	9.183
	-	-	9.175	9.183
<i>From other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	2.315	1.802	2.314	1.801
Samogitija UAB	88	8	88	8
Čia Market UAB	2.807	2.921	2.802	2.905
Klaipėdos pienas AB	101	333	101	332
Žemaitijos pieno investicija AB	802	786	800	784
Muizas piens SIA	451	179	451	179
Nepriklausoma tyrimų laboratorija UAB	856	-	856	-
Dziugas Poland	141	31	141	31
Dziugas UK Ltd	56	-	56	-
Dziugas Hungary Kft	42	-	42	-
Dziugas Deutschland GmbH	64	-	64	-
S.A.R.Dziugas France	60	-	60	-
Dziugas USA LLC	9	42	9	42
Dziugas Eesti OU	185	6	185	6
	7.977	6.108	7.969	6.088
Total Purchases:	7.977	6.108	17.144	15.271

Balances outstanding with related parties

	The Group		The Company	
	31 12 2018	31 12 2017	31 12 2018	31 12 2017
3) Accounts receivable and financial debts				
<i>Subsidiary</i>				
Šilutės Rambynas ABF	-	-	-	-
	-	-	-	-
<i>Other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	-	-	-	-
Samogitija UAB	-	-	-	-
Čia Market UAB (including financial lease)	2.660	1.924	2.657	1.924
Klaipėdos pienas AB (including loan)	1.292	1.016	1.157	963
Žemaitijos pieno investicija UAB	-	-	-	-
Muizas piens SIA	278	213	278	213
Dziugas Hungary Kft	1	-	1	-
Dziugas Deutschland GmbH	2	-	2	-
S.A.R.Dziugas France	-	-	-	-
Dziugas Eesti Ou	4	-	4	-
Dziugas Poland	2	-	2	-
Dziugas USA LLC	297	677	297	677
	4.536	3.830	4.398	3.777
Total balances of receivables:	4.536	3.830	4.398	3.777

ŽEMAITIJOS PIENAS ABCompany's code 180240752, Sedos str. 35, Telšiai, Lithuania
CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS**EXPLANATORY NOTES****FOR THE YEAR ENDED 31 DECEMBER 2018**

(All amounts in EUR thousands unless otherwise stated)



	The Group		The Company	
	31 12 2018	31 12 2017	31 12 2018	31 12 2017
4) Balances of payables				
<i>Subsidiary</i>				
Šilutės Rambynas ABF	-	-	7.982	2.109
	-	-	7.982	2.109
<i>Other related parties</i>				
Baltijos mineralinių vandenų kompanija UAB	586	318	586	318
Žemaitijos pieno investicija UAB	149	103	149	103
Klaipėdos pienas AB	-	-	-	-
Čia Market UAB	-	7	-	-
Muizas piens SIA	46	49	46	49
Samogitija UAB	7	9	7	9
Nepriklausoma tyrimų laboratorija UAB	91	-	91	-
Džiugas Poland	13	9	13	9
Džiugas UK Ltd	11	-	11	-
Džiugas Deutschland GmbH	47	-	47	-
Džiugas Hungary Kft	5	-	5	-
Džiugas Eesti OU	-	-	-	-
	955	495	955	488
Total balances of payables:	955	495	8.937	2.597

In 2018, the Company accounted for impairment losses for doubtful debts related to amounts belonging to related parties, i.e. UAB Čia Market - 339 thousand (in 2017 - EUR 189 thousand). The assessment of these doubtful debts is reviewed each financial year by checking the financial position of the party concerned, the market in which the party concerned is operating and forward looking factors (as described in Note 3 – Impairment of financial assets). The key judgements and estimates used by the Management of the Company in the evaluation of this allowance was a) the anticipated time over which the outstanding accounts receivable amount is expected to be repaid by UAB Čia Market (approximately 3-4 years as at 31 December 2018 and approximately 2,5 years as at 31 December 2017) and b) the discount rate used in the allowance computation (5.5% as at 31 December 2018 and 6,5% as at 31 December 2017). The discount rate has decreased due to UAB Čia Market having pledged its assets (87 % of total outstanding debt to AB Žemaitijos pienas).

The Company and the Group have concluded a number of transactions with related parties (AB “Žemaitijos pieno investicijos” group companies) and the Group's profit and sales are significantly affected by transactions with AB “Žemaitijos pieno investicija” group. Transactions include the leasing of fixed assets, the sale of raw materials and the purchase of manufactured products (cheese) from ABF “Šilutės Rambynas”, the sale of distribution services to UAB “Baltijos mineralinių vandenų kompanija”, the sale of the finished products to UAB “Čia Market”, and the sale of raw materials, production and services to AB “Klaipėdos Pienas”.

Management salaries and other benefits

During the reporting period (2018), the Company accounted for EUR 64.878 (EUR 42.933 in year 2017) for the members of the supervisory board, amounts to EUR 21.626 per member; no amounts were paid to the members of the management board, except management bonus. The Company paid a salary of EUR 775.488 (EUR 664.601 in year 2017) to the management directors / managers (for the list of management board members, refer to Management report), EUR 86.165 per manager.

For the group company ABF “Šilutės Rambynas”, EUR 14.000 was accounted for 3 management board members.

By the decision of the shareholders meeting (on the 17th of April, 2017), EUR 200.000 were paid as management bonuses in financial year 2018.

The Management of the Company and the Group did not receive loans, guarantees, no assets have been sold.

ŽEMAITIJOS PIENAS AB

Company's code 180240752, Sedos str. 35, Telšiai, Lithuania

CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

EXPLANATORY NOTES

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in EUR thousands unless otherwise stated)



30. EVENTS AFTER THE REPORTING PERIOD

The Company as a plaintiff started legal proceedings on 14-02-2019 against Vilnius district municipality administration regarding a public tender, asking to annul the results due to possibly illegal nature of the tender. Case will be processed by Vilnius District Court.

The Company cannot make a reliable estimate of the outcomes of this case as the case is complicated in terms of legal interpretation and application of the law.

There were no other material post balance sheet events, that could make a significant impact to the financial statement of the Company and the Group as at 31st December 2018.

The Group's consolidated financial statements and the Company's financial statements are signed and approved on 15 March 2019.

Robertas Pažemeckas
General Director

Dalia Gecienė
Chief accountant